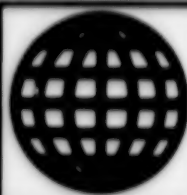


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NORTHEAST ASIA

Commentary on North-South Korean Reunification Dialogue

HK2812015389 Beijing LIAOWANG [OUTLOOK] in Chinese No 50, 11 Dec 89 pp 44-45

["Special Dispatch" by Contributing Reporter Zhang Jinfang (1728 6930 5364): "Dialogue Between South and North Korea in Retrospect and Prospect"]

[Text] Pyongyang—Panmunjom, the Korea Armistice Village, has become busy lately. Representatives of North and South Korea frequently hold multichannel talks at the "Unification Pavilion" and "Home of Peace" in Panmunjom. Just as the names of the sites signify, the talks between the two sides aim at exploring and discussing the important issue of peace and reunification of the Korean Peninsula. These talks have aroused the great concern of people in North and South Korea, who have long undergone the painful experience of having a divided motherland, with hope for reunification lit once again in their hearts.

The North-South dialogue has taken some "detours" during the last year of the 1980's. The multichannel North-South Korean dialogue that continued from 1988 into 1989 reached a climax at the beginning of this year. The two sides have in succession made arrangements for official talks between their Red Cross organizations, preparatory contacts for parliamentary talks, and talks on organizing a united team to participate in the Beijing Asian Games. To keep momentum going, the two sides conducted the above talks in January this year [1989] and, at the same time, initiated vice ministerial contacts as preparations for the meeting between the North and South Korean prime ministers. Regrettably, the multichannel North-South Korean dialogue did not last long because of changes in the situation on the peninsula. In the spring of this year, the United States and South Korea held another joint military exercise, "Cooperative Spirit," which was claimed to be of the largest scope in the West, with an input of 200,000 troops. The exercise lasted three months. Rifle fire and gunpowder smoke fouled the atmosphere of detente, interrupting the North-South dialogue once again.

Several noteworthy incidents between North and South Korea took place during the six-month interruption of the North-South dialogue. The renowned Reverend Mun Ik-hwan broke through all kinds of obstacles and arrived in Pyongyang for a visit between March and April. In July Im Su-kyong, a representative of the South Korean "National College Student Representatives' Association," entered the North via Japan and the FRG, and participated in the 13th World Youth Festival held in Pyongyang. In June the South Korean press revealed that Congressman So Kyong-won of the Party for Peace and Democracy, the largest political party not in power, had visited Pyongyang in secret. These incidents were bold attempts by personalities of various circles in South

Korea to translate their hope for reunification into practical action, which greatly angered the South Korean authorities, who apprehended Im Su-kyong and Mun Ik-hwan and put them on trial on the grounds that they had violated the "National Security Act." The South Korean authorities nullified So Kyong-won's status as congressman and compelled the Party for Peace and Democracy to expel him from the organization. The South Korean authorities have adopted the measure of "punishing someone as a warning to others," with the aim of rectifying themselves in order to realize the so-called "unity of the North-South dialogue under government control." During that period, the South Korean authorities closed the door on dialogue, and it was not until August and September this year [1989], when the South Korean authorities believed that the timing was favorable to them, that they agreed to resume multichannel dialogue.

Certain new accomplishments on the original foundation have been made in the busy North-South Korean dialogue over the past few months. The highest-ranking ministerial talks will make arrangements for the meeting of prime ministers of both sides. The two sides have reached an agreement on the time and place of the first meeting of the prime ministers. It has been agreed that the first meeting will be held in Seoul within a month of the closing of the talks for vice ministers, while subsequent meetings will be held in Pyongyang and Seoul on an alternating basis. Unanimous or close views have been achieved on the number in the entourage and of reporters during the meeting of the prime ministers. The two sides have reached an agreement on the procedures for and composition of delegates in the North-South parliamentary talks. Through contacts on many occasions, representatives of the Red Cross from the North and South have decided to send their second reciprocating delegations to visit the home towns of separated families and to restore official Red Cross dialogue, which has been discontinued for years. The dialogue on sports has resolved three knotty issues: the song, banner, and name of the united team with regard to its participation in the Beijing Asian Games. The two sides have also reached mutual agreement on the basic principle of "selecting the best sportsmen to be enrolled in the united team." Should the united team take shape, it will be a breakthrough in Korea's history.

We should see that the results of the North-South Korean dialogue are only the beginning and there is still a long way to go to attain fulfillment of the dialogue's goal and the expectations of the people of the two sides. Representatives at the vice-ministerial level from the two sides have failed to reach an agreement on the name of the meeting and on relevant topics on the agenda despite continuous contacts. North Korea believes that the meeting of prime ministers should be called a "high-ranking political and military conference," and the theme of the talks should be the elimination of the political and military confrontation between the two sides in order to lay a foundation for Korea's peaceful

reunification by taking the initiative into its own hands. As for South Korea, it has insisted on calling the meeting of prime ministers the "Meeting for Senior Leading Members of North-South Authorities" or the "North-South Meeting of Prime Ministers," and the two sides should discuss North-South cooperation and exchanges in various aspects. Preparatory contacts for North-South parliamentary dialogue have focused on the form of parliamentary dialogue. The North and the South respectively support a parliamentary congress and dialogue between parliamentary delegates from the two sides. The terminological difference seems to be slight, but have reflected the disputes between the two sides on important issues. North Korea has stressed that the parliaments of both the North and South should amass the wisdom of the entire nation, and lend their ears extensively to suggestions on unification from all political parties and sects, including the authorities of the two sides; therefore it is justified to call it a congress. The South has gone all-out to oppose convening a congress, while it insists on holding a meeting of delegates, namely a bilateral dialogue between parliamentary delegates from the two sides. Because the Beijing Asian Games are approaching, the North-South talks on sports are still exploring the selection of sportsmen and how to form the united team. Although contacts between the two sides have been frequent, it has been rather difficult to attain unanimity on many issues. Even the most hopeful issue under discussion at the Red Cross preparatory talks on exchanging art performing troupes, an issue that has been agreed upon, is now blocked due to issues concerning the content in each program. Consequently, the schedule originally set by the two sides, in which reciprocal visits by hometown delegations were scheduled for 8 December and the official Red Cross dialogue was scheduled to resume on 15 December, have been shelved.

Reviewing the North-South Korean dialogue when the 1980's are about to end, we find that its track record shows progress some of the time and retrogression at other times, along with some continuation as well as interruption. There were successes as well as grave differences in the dialogue. Generally, the successes were scored under the condition of overcoming differences. People care whether the North-South Korean dialogue will continue in the 1990's, and whether it will repeat the progress and retrogression, continuation and interruption of the 1980's. Positive outcomes to the above question require sincerity on both sides in the dialogue. North Korea has displayed its sincere hope of pushing the dialogue forward with its own practical actions. It has proposed a series of suggestions conducive to the dialogue based on the three principles of "taking the initiatives into one's hands, peaceful reunification, and great national unity" as ascertained in the "North-South Joint Declaration" of July 1972. The problem lies in the fact that the South Korean side is attempting to achieve ends other than the dialogue's purpose by taking advantage of it. In the course of the dialogue, South Korea has coerced the North into implementing "democracy" and

"opening up" on the strength of the state of affairs surfacing in some East European countries. The actions of the South have deviated from the basic purpose of the North-South dialogue, and it is likely that the dialogue will be led astray. If South Korea genuinely hopes to achieve practical results in the dialogue, it should do a few practical things conducive to relaxing the atmosphere in the dialogue. For example, it should stop the annual large-scale "Cooperative Spirit" joint military exercise with the United States. At the same time, the sincerity of South Korea has a direct bearing on the dialogue: any obstacle it places will possibly impede the dialogue's progress and success.

Great differences exist in many aspects, including differences in the social systems, ideologies, and beliefs of North and South Korea during their division for some 40 years. Therefore, it is normal that great progress is not to be on the horizon within a short period. To relieve the Korean people's pain caused by the split of their nation, and to lay a foundation for national reunification, the two sides should patiently keep the dialogue going. The 40-year history of a divided Korea shows that giving up dialogue to seek confrontation is a bad policy in seeking a solution to the relaxation and reunification of the Korea Peninsula. People hope that in the coming 1990's, the concept that it is "better to have dialogue than confrontation" will continue, negotiations will be conducted in a multichannel dialogue, and a solution will be found to the important issue of peace on the peninsula and peaceful reunification, along with a series of practical problems, on which the Korean people have earnestly focused their attention.

XINHUA Reports Japanese Draft Budget

OW2912173689 Beijing XINHUA in English
0851 GMT 29 Dec 89

[Text] Tokyo, December 29 (XINHUA)—The Japanese cabinet led by Prime Minister Toshiki Kaifu ratified a draft budget for fiscal 1990 in a meeting today, to bring Japan closer to national solvency without debt. The budget draft is scheduled to take effect in April.

Draft appropriations of 66.27 trillion yen (473 billion dollars), up 9.7 percent from fiscal 1989's initial draft budget. This is the biggest increase since the fiscal year 1981.

The draft budget's debt-servicing outlays represents 21.6 percent of the total.

No additional debt-covering government bonds will be issued in fiscal 1990 for the first time in 16 years, in an effort to achieve the current target in the financial reform plan.

The draft budget expects to raise 58 trillion yen (41.4 billion dollars) through taxes, 13.7 percent more than the current fiscal year, reflecting expectations of higher corporate earnings and individual income as a result of economic expansion.

The 1990 budget would be a new annual spending program without reliance on deficit bonds designed to make up for a general account revenue shortfall, analysts said.

Defense spending would increase by 6.110 percent to 4.16 trillion yen (29.7 billion dollars) following a 5.9 percent increase in the current budget.

The increase would put the ratio of defense expenditures to Japan's gross national product (GNP) at 0.997 percent, keeping the figure below 1 percent of GNP for the first time in four years.

But the defense outlays would place Japan in third place in the world, second only to the United States and the Soviet Union, analysts noted. Procurements for next year include a large destroyer, 10 F-15 fighters and 30 tanks.

The budget earmarks 817.5 billion yen (5.8 billion dollars) for official development assistance (ODA), or aid to developing countries and international organizations, an 8.2 percent increase over the fiscal 1989 budget.

The draft budget, to be sent to the Diet (parliament) in January for approval, may receive opposition at the next ordinary session because of the inclusion of 5.3 trillion yen (37.9 billion dollars) as revenue from the controversial 3-percent consumption tax introduced in April this year, analysts pointed out.

WESTERN HEMISPHERE

Analysis of El Salvador's Civil War

HK2412033289 Beijing JIEFANGJUN BAO in Chinese
15 Dec 89 p 4

["News Analysis" Column by Yang Can (2799 3503): "A Comprehensive Analysis of Civil War in El Salvador"]

[Excerpts] [Passage omitted] The current civil war in El Salvador was triggered by the destruction of the headquarters of the Labor Federation, the country's biggest trade union organization. On 31 October, an ultrarightist "dare-to-die squad" supported by the government and the military used a heavy bomb to bombard the headquarters of the Labor Federation, killing and wounding over 40 people, including principal leaders of the federation. On 2 November, the guerrillas issued a statement strongly condemning the terrorist activity of the squad and declaring the cancellation of the third round of talks with the government scheduled in Venezuela. On the same night the guerrillas launched a large-scale offensive "to eliminate fascism." About 8,000 guerrillas swiftly captured many towns and strategic positions northwest of the capital and cut key communications lines between the capital and the hinterland. In the meantime, they also attacked some 50 government army bases and police stations in the hinterland, thus controlling 30 percent of the country's territory. They have established "local people's governments" in eight of the 14 provinces throughout the country. During this period, the government dispatched armored cars and

air force units to carry out counterattacks. They wantonly bombed residential areas near the capital city occupied by the guerrillas. [passage omitted]

This war has deep-rooted causes. El Salvador is a small country with an area of 21,000 square km and a population of 5 million. During this 10-year-long war, 70,000 people have died and the national economy has been seriously destroyed. The ultrarightist Nationalist Republican Alliance [ARENA] won the general election early this year, thus aggravating the conflict between the guerrillas and the government. Prior to the election, the guerrillas put forward a peace proposal demanding a six-month postponement of the election so as to make their participation possible. But this proposal was rejected by the government. Because almost half the electorate did not vote, the guerrillas declared that it did not recognize the Cristiani government. Pressed by domestic public opinion and urged by the Central American peace agreement, the government and the guerrillas held two rounds of talks in September and October. During the talks, the guerrillas demanded that the government stop its suppression, introduce political, economic, and judicial reforms, reorganize the armed forces, and punish the "dare-to-die squad." The government insisted that the guerrillas lay down their arms before reforms were carried out. The hardline position of the government reflected the established policy of the ruling party, which has all along stood for ruling the country by military means, advocated the suppression of democratic forces, and supported the "dare-to-die squad" in carrying out assassinations. A university president in Central America was assassinated by the squad for criticizing the ultrarightist policy of the ruling party. Recently, the ruling party supported the "dare-to-die squad" in attacking the Labor Federation building. This ignited the current civil war and undermined the peace process in the country. The guerrillas issued a statement on 12 December condemning the meeting of the five heads of state for being partial to the ultrarightist Salvadoran Government. They made it clear that they would not accept any effort to dissolve the guerrilla forces and would carry on their struggle.

El Salvador's prolonged failure to bring about national reconciliation has much to do with U.S. policy of intervention in Central American affairs. In Central America, the United States supports the Contras in their attempt to overthrow the Sandinista regime; on the other hand, it provides powerful support for the Salvadoran Government in suppressing the guerrillas. U.S. military and economic aid to El Salvador has amounted to \$3 billion for the last 10 years. Shortly after the outbreak of the current civil war in El Salvador, U.S. President Bush issued a statement encouraging the Salvadoran Government to suppress the guerrillas, and promised to provide all necessary aid.

The deterioration of the situation in El Salvador has aroused much concern in the international community. There is fear that the wars in Nicaragua and El Salvador will endanger the Central American peace process and make the situation in that region more complicated.

NATIONAL AFFAIRS, POLICY

Contract Management Responsibility System Pushed

90OH0136A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 7 Nov 89 p 4

[Article by Li Zhongfan (2621 1813 0416), National System Reform Committee: "On the Necessity For and the Scientification of the Contract Management Responsibility System"]

[Text] The big discussion of the contract management responsibility system that is currently raging is actually a continuation of the 1983 discussions of this issue. The essence of the controversy is about what road reform of China's enterprises should take. Should it proceed entirely from distribution, focusing on insuring an increase in national financial income by increasing taxes on enterprises' profits and sales figures, or should it proceed from the emancipation of productivity with the emphasis on the creation of a new enterprise management mechanism suited to the development of a socialist commodity economy, using the contract management responsibility system to make the "cake" bigger, enterprises making more and retaining more, and the state "getting more."

The Contract Management Responsibility System Is a Necessity in the Development of a Commodity Economy

Full development of a commodity economy is a stage that cannot be skipped in socioeconomic development.

This is an objective scientific thesis that cannot be changed by human will. Only by understanding and acknowledging this scientific thesis can we speak a common language when discussing this issue.

However, the rise and development of a commodity economy is conditional. Generally there are two basic prerequisites. The first is socialization, and the second is the multivariation of principal profit making entities. Without the first prerequisite, socialized exchange becomes impossible. Without the second prerequisite, exchange at equal value becomes impossible, and the formation of a completely social commodity economy also becomes impossible. Socialist commodity economies rise and develop from a foundation of public ownership. Public ownership of the means of production better favors the optimum allocation of resources, and is better suited to the development of large scale socialized production. However, the second prerequisite does not exist naturally; we have to create it. This is an unprecedented undertaking.

China's reform of its economy is a form of socialist self-improvement that requires both maintenance of the public ownership system and the development of a commodity economy to take advantage of the superiority of socialism.

China's rural villages have scored world acclaimed achievements through the family output-linked responsibility system based on the collective ownership system. Urban economic system reform has gone through an extremely complex and tortuous process, enterprises becoming principal profit-making entities thereby on a foundation of the public ownership system. Since enterprises have become commodity producers and managers having management decision-making authority, responsibility for their own profits and losses, the ability and authority to make their own accumulations, to transform themselves, and to develop themselves, they have tried out numerous reforms such as expanding enterprises' decision-making authority, economic responsibility systems, substituting tax payments for the surrender of profits, and the stock share system. However, anticipated goals have not been achieved. Practice in reform, particularly practice in reform of the rural contract system, has inspired us greatly. The underlying principles and the mechanism of the rural contract system hold universal significance; they can and should be applied to cities. Application of its principles as the realities of the urban economy require to institute contract management responsibility systems can likewise make enterprises become main profit-making entities without changing the system of ownership by the whole people. This is to say that enterprises can become producers and managers in the planned commodity economy, forming a multiplicity of principal profit-making entities. With the advent of the contract management responsibility system, an overwhelming majority of enterprises and regions welcomed it. Their very rapid mastery and complete familiarity with it attests to this point. Very clearly, the successful creation of such a contract management system that grew out of the soil of China, that is distinctively Chinese, and that is suited to the development of a planned commodity economy makes the rise and development of the contract management responsibility system a necessity.

Greater Understanding of What the Contract System Connotes

Why is a contract management responsibility system? Its meaning cannot be capsulized in simple phrases such as "two guarantees and one link;" or "progressively increasing the contracting of work tasks," much less can it be summarized simply with the word "contracting," and be mistakenly promoted infinitely on the basis of such an understanding. Actually, the contract management responsibility system holds specific connotations, and it has profound, and rich scientific implications.

Based on Public Ownership

This point is very important. Unless it is based on the system of public ownership, a commodity economy being operated from a foundation of private ownership, bipolarization can scarcely be avoided. Sticking to public ownership as the basis shows that the reform of our economic system is socialist self-improvement that brings into play, to the maximum extent, the innate

superiority of the system of public ownership, placing development of socialist productivity on a solid foundation.

A Responsibility System as the Nucleus

The innate superiority of public ownership per se is beyond doubt; the question is how to create the conditions that will enable this superiority to come to the fore. The contract management responsibility system, in which responsibility is the nucleus, in which responsibilities, authority, and profits are organically linked, and which effectively solves major shortcomings in enterprises use of resources of no one being responsible, or responsibility not being clear, embody the inherent requirement of making the most of the superiority of the public ownership system.

Limitation of Profits as a Mechanism

The motivation for socialist enterprise production and management stems not from a limitation of property, but a limitation of profit. Enterprises under private enterprise depend on a property - profit - property exciter mechanism. Under a system of public ownership, the point of departure and the point of return of enterprise management is profit for the formation of a profit - property - profit exciter mechanism. The profit limiting mechanism appropriately adjusts the profit relationships among the state, enterprises, staff members and workers, freeing the initiative of the three to the maximum.

Separation of Ownership Authority and Operating Authority

The separation of the two authorities means a transfer under socialism of enterprises owned by the whole people from state ownership and state management to state ownership and enterprise management. Lacking this separation of the two authorities, a contract management responsibility system cannot be formed.

Establishment of the Juridical Person Position of Commodity Producers and Managers

The ultimate goal of contract management responsibility systems is to enable enterprises to get out from under direct government control, and to enable the government to be free from the dependence of enterprises, thereby enabling enterprises to become independent commodity producers and managers that make their own operating decisions, are responsible for their own profits and losses, and that look after their own accumulations, their own technical transformation, and their own development. Realization of this goal requires that managers possess production management authority, internal profits distribution authority, product self-marketing authority, authority to set prices within the state-set macroeconomic framework, and investment decision making authority, as well as foreign trade authority and authority to use foreign capital (for those enterprises having requisite conditions). Equity theory

also provides that managers also possess use rights, earnings rights, and disposition rights.

The foregoing five areas are organically linked in their content, thereby forming a complete scientific intension for forming contract management responsibility systems that enable enterprises to shape a new and vigorous management mechanism suited to development of the socialist commodity economy. This is something that the substitution of tax payments for the surrender of profits, and that the separation of taxes and profits cannot accomplish. One might say that the contract management responsibility system is a specific road that links socialism with the commodity economy.

From the foregoing explanation, one can see the following clearly: The contract management responsibility system contains a completely scientific intension; it is not simply the contracting of profit norms. Therefore, when discussing maintaining and perfecting the contract system, special attention should be given to no change in six aspects of the contract system.

No Change in the Profit Limitation Mechanism

While emphasizing greater political and ideological work, one should clearly realize the need to follow Marxist principle of material benefit in management and production activity, the profit limitation mechanism pervading the whole process. Otherwise, the contract management responsibility system will lose dynamism, all management activity possibly becoming stagnant.

No Change in the Separation of Authority

Not only can there be no change in the separation of the two authorities, but rather management authority should be intensified and expanded. This is an orientation for improving and developing the contract management responsibility system. If it is changed for a return to state ownership and state management, enterprises will lose their positions as commodity producers and managers, becoming administrative appendages once again.

No Change in the Plant Manager Responsibility System

If the plant manager responsibility system is changed, there will be a recurrence of the situation of no one being responsible, or no designated responsibility for the use of resources in enterprises. Contract management agreements will become a dead letter that will serve no purpose in the contract management responsibility system.

No Change in the Link Between Staff Member and Worker Earnings and Economic Performance

If the link between staff member and worker earnings and economic performance is changed, there could be a return to the "large common pot." Staff member and worker initiative might decline, and there could be a recurrence of no difference whether one works or not, no difference whether one works much or little, and no difference whether one works well or badly.

No Change in Linking Managers' Earnings to Management Effectiveness

Change in this conditions would go against the principle of organically linking responsibilities, authority, and benefits. Managers' initiative could not be sustained, and it would be difficult for managers to devote themselves totally to the enterprise. Consequently the prosperity of the enterprise would be markedly damaged. Of course, given the country's actual circumstances, there will have to be needed regulations about the way in which managers' earnings and management performance are linked.

No Change in Basic Form

Practice has demonstrated the generally prevailing basic forms of "two guarantees and one link," and "progressive increase in work contracting," to be workable and effective, and the mass of enterprises are thoroughly familiar with them and use them. To change them could lead to needless confusion and losses, and the artificial creation of a needless shock.

Historical experiences merit attention. We absolutely cannot repeat the mistake of the 1950's in being overly anxious to make a transition. At that time, although elementary agricultural producers' cooperatives had only just been founded, we became anxious to move on to advanced agricultural producers' cooperatives. As they became larger in size, we began people's communes with the result that productivity was extremely badly damaged. It is necessary to realize that when a specific form of production relationship is found to be workable and effective in practice, it is necessary to let it settle down for a period of time in order for its superiority to be realized to the full. Productivity is difficult to develop in the midst of frequent changes in production relationships.

Therefore, we must now get rid of all kinds of interference to in accordance with the completely scientific intension of the contract management responsibility system, resolutely persevering in, stabilizing, perfecting, and developing the contract management responsibility system so that plays a greater role in the magnificent undertaking of reform and opening to the outside world.

FINANCE, BANKING**Better Banking Seen Important To Curbing Inflation**

90OH0102A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese
No 9, 11 Sep 89 pp 24-29, 39

[Article by Xu Xuehan (1776 7185 1383) and Xia Deren (1115 1795 0088), Economic, Technical and Social Development Research Center, State Council: "The Financial Predicament Being Faced and the Way out of It"]

[Text] I. Loss of Financial Control Over the Past Several Years Fueled Inflation of Aggregate Social Demand, and Also Mired the Banking Sector in Crisis.

The serious currency inflation that occurred in China during 1988 resulted from the accumulation of steadily expanding aggregate social demand during the previous several years, and loss of financial control played a role in adding fuel to the flames. The loss of financial control was manifested mostly in the currency supply exceeding economic growth. Let us take a look at the comparative correlation between the rate of increase in currency supply and the rate of increase in national income during the past several years. (See Table 1)

Table 1

Year	National Income Rate of Increase (%)	Rate of Increase of M_0 (%)	Rate of Increase of M_1 (%)
1983	9.8	20.65	14.85
1984	13.5	49.52	31.42
1985	13.1	24.71	5.84
1986	9.0	23.34	28.05
1987	10.5	19.38	17.87
1988	11.4	46.72	20.80

Note: $M_1 = M_0$ + current accounts (not including fixed deposits). Source of data: ZHONGGUO TONGJI NIANJIAN (1988) [CHINA STATISTICAL YEARBOOK (1988)], and Chinese People's Bank Credit Receipts and Disbursements Statistical Data.

The data presented in Table 1 show a more than 20 percent rate of increase in the country's currency supply for the past several years (figured in terms of M_1), far higher than the national income rate of growth. The currency supply is the carrier of aggregate social demand. If the increase in the currency supply is kept synchronized with normal economic growth, aggregate demand and aggregate supply will remain substantially in balance, but if increase in the supply of currency exceeds economic growth, inflation of aggregate demand will be unavoidable.

Although banks as suppliers of currency may put any amount of currency into circulation, objective economic laws will ultimately cause the banks to pay an enormous price for this. This price shows up in two regards. The first is skyrocketing prices. In 1984, prices began to increase year by year, the overall price index for the whole year reaching 18.5 percent by 1988. Soaring prices meant simultaneous currency devaluation, confidence in the renminbi declining markedly. Second, the headlong increase in currency supply caused the entire financial system to operate abnormally, the banking sector sinking into a crisis in its ability to settle debts. This is the issue that we will analyze below.

Debt settlement ability means the level of assets liquidity that a bank maintains in order to discharge payment obligations that may occur. If it is to preserve normal business activities, a bank must maintain a good debt

settlement ability. Should a crisis in debt settlement ability occur, a bank will verge on bankruptcy. In 1988, China's banking sector began to sink into a debt settlement ability crisis, or what people term a financial crisis.

The bank debt settlement crisis showed up first in banks' depletion of their own funds. China's banking system currently has 113.7 billion yuan of its own funds, but the funds it has lost far exceed this figure. The most obvious figures were 32.5 billion yuan in government overdrafts and 35.7 billion yuan in government loans. These government debts were not secured by any kind of collateral, nor was there any expectation of government repayment inasmuch as government approved budget expenditures were already completely spent. These two items alone caused a loss of 70 percent of the banks own funds, but the problems did not end there. A banking expert comrade estimated that at least between 10 and 15 percent of all loans in the country are bad loans, which is to say unrecoverable loans. The country's banking system currently has approximately somewhat more than 1 trillion yuan in outstanding loans, so according to the above estimate, between 100 and 150 million of these loans are in default and cannot be recovered. If the government is unable to cancel and then provide reimbursement for these loans, it can only be the banks' own funds that are lost. These bad debts, plus the loans and overdrafts that the government was unable to repay, far exceeded the banks' own capital (their own funds), so this could not help but arouse apprehensions. Of course, because of special technical provisions pertaining to bank asset liability relationships, policy makers could completely cover up the contradiction by issuing more currency; however, the ability of the circulation field to absorb the currency was limited, after all. Once the amount of currency increased beyond a certain amount, the people would lose confidence in the currency. That would inevitably result in panic buying and bank runs. When that happened, the settlement crisis would be revealed to the full.

China's bank settlement crisis also showed up in changes in the reserves of specialized banks. In an overall sense,

the specialized banks' reserve funds system was extraordinarily imperfect. Theoretically, commercial banks not only had to pay statutory reserve funds to the central bank, but they also were supposed to keep on hand sufficient excess reserve funds (sometimes termed stand-by funds), and to set up a special bad debt reserve (alternatively known as a risk fund). However, up to the present time, China has never required specialized banks to set up a bad loan reserve fund system. Even more noteworthy was that specialized banks' excess reserves were variable, declining precipitously in early 1989.

A look at the situation during the past several years showed the excess reserve level of the country's specialized banks was not very low by any means. In 1986 and 1987, specialized banks maintained between 45 and 46 billion yuan of excess reserve fund deposits in the central bank. This was approximately 10 percent of all deposits. When the statutory reserves were added to this amount, specialized bank reserves totaled more than 20 percent of all deposits, a figure higher than for commercial banks in developed countries. (See Table 2.)

Table 2

Banks	Chinese Specialized Banks	American Commercial Banks	Japanese Municipal Banks
Total Reserves as a Percentage of Deposits	20%	8.7%	15.6%

Source of Data: Chinese People's Bank 1986 Credit Receipts and Disbursements Report Forms; United States Currency Policy and Financial System, 1974; Japanese Banks, 1981.

Table 2 shows the not very low level of Chinese bank reserves during the past several years. It should be realized, however, that the fairly high level of specialized bank reserves was sustained by central bank reloans, which is to say that China's specialized banks are highly dependent on the supply of funds from the central bank. We can make a comparison with Japanese banks. (See Table 3).

Table 3. Percentage of Commercial Bank Reloans to the Central Bank in China and Japan

Bank	Specialized Bank Total	China	All Banks	Japan
		Grassroots Banks Surveyed		Municipal Banks
Reloan Percentage	29.19%	32.0%	4.8%	8.6%

Note: The reloan percentage for China = loans to the People's Bank / (Loans to the People's Bank + Deposits); the reloan percentage for Japan = Rediscount / (Rediscount + Deposits + Bank Debentures).

Source of Data: Chinese People's Bank 1986 Credit Receipts and Disbursement Forms; United States Currency Policy and Financial System, 1974; and Japanese Banks, 1981.

It should be realized that in a market economy country such as Japan, commercial bank dependence on the central bank is very strong; however, in terms of the reloan rate for commercial banks figured in the same way, Chinese specialized bank dependence on the central bank is very much

greater than for Japanese banks. Thus, we reach an important conclusion that Chinese specialized banks' maintenance of fairly high excess reserve funds during the former period was premised on central bank reloan support. Therefore, the settlement capability of specialized banks

did not result from their own internal efforts, but rather was supported by external funds. Such a basis for settlement capabilities was necessarily extremely weak. Once changes occurred in the external economic situation, it was impossible for the specialized banks to avoid a payments crisis. In early 1989, two factors shook the specialized banks' settlement foundation: The first was that the central bank began to curtail reloans. During February of 1989, central bank relending was 2.5 billion yuan less than at the end of 1988. It decreased another 6.3 billion yuan in March, and plans called for recouping 25 billion yuan in credit during the first half of 1989. The tightening of credit directly affected specialized banks' excess reserve funds. The second was that the inflation of consumption fueled large increases in payments of a wage nature, resulting in a large decline in enterprise's deposits, which further weakened banks' financial strength, causing an enormous decline in excess reserves. (See Table 4.)

Table 4.
Decline in Specialized Banks' Excess Reserves During January 1989

	End January 1989	End 1988 Balance	Percent Decline
Specialize Banks' Excess Reserves	171.92	389.05	-55.81
Including: Industrial and Commercial Bank	48.31	97.61	-50.51
Agricultural Bank	57.72	132.64	-56.48
Bank of China	26.96	54.98	-50.96
Construction Bank	24.45	77.94	-68.35

The Table 4 figures show a dramatic decline of more than 50 percent in specialized banks' excess reserves during January 1989, decreasing from 38.9 billion yuan at the end of 1988 to 17.1 billion yuan. If a crisis in banks' ability to settle is sustained through central bank reloans during a period of credit expansion, then during a period of tightened cutbacks when reloans are curtailed and deposits decline, a crisis in settlement ability is bound to be markedly manifest.

The dramatic decline in specialized banks' excess reserves greatly weakened their payment ability. Early in 1989, grassroots banks in many places were simply unable to issue cash because their deposits were stagnating in the central bank. As a result, enterprises could not issue wages, and IOU's had to be issued to pay for state procurement of agricultural byproducts. Residents encountered numerous obstacles in withdrawing savings, even to the point where some savings institutions simply closed their doors. Some banks had no choice but to borrow cash from individual depositors to meet withdrawals. Banks could not readily meet their payment obligations. This caused a further decline in confidence. Thus, people no longer deposited money in banks, and units set up small private fund caches, which led to a reduction in the amount of currency withdrawn from circulation. This further reduced resettlement ability.

In western countries, if commercial banks cannot discharge their payment obligations, they inevitably face the danger of closing and compulsory settling of their debts. In China, specialized banks are under state ownership, so no issue of closing exists. Consequently, the resettlement crisis is manifested in distinctive ways: First, the payment difficulties of individual banks may be shifted to other banks by taking over the funds of affiliated banks, thereby causing a chain reaction. During the money supply shortage in 1989, grassroots banks in various places took advantage of loopholes in the settlement system to sit on each other's bills instead of settling amounts outstanding promptly. They resorted to every possible means to hold on to more funds belonging to affiliated banks. By the end of March, banks were holding 79.4 billion of settlement funds in transit, 57.6 billion yuan more than in 1988. Bank settlement procedures were chaotic, and the clogged clearing channels caused more funds to "circulate outside the system" causing a poor turnover of all bank funds. Looked at in terms of the internal banking system, the increase in the amount of settlement funds in transit amounted to banks holding on to each other's funds; however, looked at in terms of society as a whole, the banks were forcibly holding on to enterprises' funds. Second, when the mutual arrears situation reached a certain extent and the entire credit and loan chain verged on collapse, the central bank had no choice but to re-increase the amount of reloans in order to revive specialized banks' ability to make payments and clear away obstructions to the circulation of funds. Under these circumstances, even though the central bank was able to ease the specialized banks' settlement ability crisis by increasing the issuance of reloans, thereby averting the bankruptcy of grassroots level banks; nevertheless, the increase in reloans multiplied several times over the amount of currency in circulation, thereby further fueling currency inflation. Moreover, as our previous analysis said, the intensification of currency inflation bred another bank payment crisis. Thus a vicious cycle was formed of currency inflation—bank clearing ability crisis—intensified currency inflation—another settlement ability crisis. China's banking system has now sunk into just such a vicious cycle.

II. Reflections in the Midst of a Predicament: Shortcomings in the Country's Existing Financial System

The miring of the country's financial system is a vicious cycle in which currency inflation alternated with a crisis in settlement ability stemmed from reasons rooted deeply in the system. Despite the achievements scored in 10 years of financial system reform, no substantive advances were made on some fundamental problems, which showed up in the following specific ways:

1) The central bank's macrofinancial control is still weak. Even though the previous financial system reform had as one of its objectives the strengthening of the central bank's macroeconomic control, some key problems were never addressed. The most prominent such

problem was the central bank's independence. During the past several years, the administrative position of China's central bank has risen steadily to the point where it is at least on an equal footing with the central government Ministry of Finance. Some people suppose that the central bank independence problem seems to have been solved. Nevertheless, the substance of the problem is that the crux of central bank independence lies in whether it can break away from the administrative departments to become directly responsible to the country's supreme legislative organ. Given today's circumstances in China, the higher the administrative position of the central bank, the deeper its administrative hue, the greater its subordination, and the greater the conditions for governments at all levels to rely on the central bank to remedy deficits and provide development funds. The subordination of the central bank also shows up in fuzzy currency policy goals. The country's current currency policy goals may be generally expressed as "develop the economy to stabilize the currency," or "stabilize the currency to develop the economy." Whether one or the other of these two major goals is placed ahead of the other does not affect the substance of the issue. The issue about which we are concerned is whether these two major goals can be melded for simultaneous consideration. In theory, there is no contradiction between development of the economy and stabilization of the currency. They can be organically combined. In fact, however, this cannot be done. This is because at China's present economic stage, as a developing country, the priority issue is to escape from poverty and catch up with the advanced countries of the world. Consequently, this stage is bound to give rise to a catch up and surpass kind of development strategy in which development of the economy is the primary goal. In addition, in system terms, from the central government to the local level, the country is presently starved for investment. A quantitative speed of economic growth is being pursued everywhere. Under these circumstances, so long as currency policy goals include development of the economy, it is possible to go along with the desires of the administrative organs, borrowing more funds from the banking sector to sustain high speed. This turns stable currency into an empty phrase. Thus, the dual goals of currency policy actually become the single goal of "economic development."

Development of any economy requires not only a driving force, but also a braking force in order to maintain safety and stability in the economy. Some of a country's various macroeconomic policies should play a driving role, while others should play a braking role. Currency policies should act in the role of a "brake," restraining the other macroeconomic policies that play a driving role, both to insure highly efficient growth of the economy, and also bring about a certain amount of stability. However, currency policy in China today actually works together with other macroeconomic policies to drive the high speed development of the economy. It does not play the "braking" role that it should, and thus

growth of the currency supply has surpassed economic growth in China in recent years to cause serious inflation.

Because the single goal of a stable currency was not spelled out, the central bank followed no plan in putting money into circulation; the supply of currency grew in a very random fashion. Statistical data for the 10 year period from 1979 through 1988 show very great rises and falls in the rate of growth of the money supply. M_0 was lowest in 1981 at 14.48 percent, and highest in 1984 at 49.52 percent, a difference of 35 percentage points. M_1 was lowest in 1985 at 5.84 percent, and highest in 1984 at 31.42 percent, a difference of 25 percentage points. The lack of rhyme or reason for changes in the growth of the currency supply gave people the mistaken notion that the bank seemed to have no quantitative standards for the issuance of currency, any amount being all right. Consequently when money was needed for economic expansion, pressures were inevitably exerted on the bank, causing a loss of control over the currency.

Another problem pertains to the central bank's macroeconomic control methods. Today, the central bank has three main macroeconomic control methods. The first is plans; the second is statutory reserves; and the third is interest rates. The latter two do not play a very big role at the present time. This is because, first of all, the basis on which the statutory reserve system plays a role is perfection of the internal operating system of commercial banks, raising or lowering of the statutory reserve rate forcing banks to rapidly curtail or expand credit. For this reason, in western countries the statutory reserve rate is a powerful tool for monetary regulation. However, the specialized banks in China today continue to eat from the central bank's large common pot to obtain funds, so raising the statutory reserve limit has no effect whatsoever on the specialized banks. This is because they can get more reloan from the central bank to sustain credit at its prevailing scale. Second, the country's interest rate mechanism is extraordinarily imperfect at the present time. This is manifested primarily in very little elasticity in interest rates when credit demand changes as a result of the overly low level of interest rates, which leads to a large scale outflow of savings that intensifies currency circulation outside the system causing steady weakening of macroeconomic regulation strength. Today, the sole method that can have an effect on the scale of specialized bank credit is plans, meaning that the central bank uses credit revenue and expenditure plans to exert control over specialized banks, effecting control primarily through the use of reloan fund plans. Superficially, the plan method effectively achieves macroeconomic monetary control; but actually, because of the tremendous expansion going on in the entire economy, the plan method simply cannot stand up to the pounding of demand for funds that comes from society. Especially since the plan itself contains artificial factors, when the central bank cannot accurately understand the actual situation in different jurisdictions and different specialized banks, funds are supplied blindly to a very

large extent. In short, at the present time China's central bank lacks a body of effective, smoothly operating macroeconomic control tools suited to the development of a planned commodity economy.

2) A standardized trust relationship is lacking within the country's financial system, and between the financial system and the economy. Banks are closely associated with "trustworthiness," banking business activity being founded entirely on trust. Bank financial activity must abide by the principles of "repayment" and "solvency." This is basic financial common knowledge. Unfortunately, 10 years of reform of the financial system on a grand and spectacular scale overlooked the key step of establishing the most basic trust relationships, and establishing the concept of trust in people's minds. As a result, it has become customary for enterprises not to repay loans, and for the treasury to willfully overdraw, regarding banks as a "magical" money tree as though loan funds can be taken endlessly and be used without depletion. This is a direct cause of the crisis in banks' ability to settle. The unhealthy state of the country's trust relationships at the present time shows up in the following several ways: (1) **Banks and the government.** In western countries, an extremely solemn relationship of trust exists between the finance ministry and banks. When the government needs short-term funds for payments now against revenue collections later, it can borrow from banks, however, it must repay on time. Government deficits must be made up through the issuance of debentures. For example, central bank fund surpluses could be used to buy government debentures, or bonds could be used as collateral in providing loans to the government. This is entirely a trust relationship of borrowing and repaying. In China, however, the government and banks have historically been hand in glove, the government automatically overdrawing or borrowing funds from banks whether or not the banks have surplus funds. Such overdrafts and loans are not repaid, nor do they have any priority for repayment. It was for this reason that in our previous analysis, we said that such funds might actually be regarded as a loss of bank funds. If government and the banks cannot establish a regular trust relationship, the government will forever rely on banks to make up deficits, and inflation will be difficult to control. (2) **The central bank and specialized banks.** In China, no trust relationship exists between the central bank and specialized banks in financial transactions, but rather a financial "large common pot" relationship exists. Once central bank reinloan funds flow into a specialized bank, it will be very difficult for them to flow back out. They become long-term working capital for the specialized banks. During the first half of 1989, in an effort to curtail credit, the central bank called upon all jurisdictions to repay 25 billion yuan of reloan. Central banks in western countries would devote no effort at all to this task, but in China, the central bank had to make a major effort in order to fulfill plan norms. It convened special branch bank manager meetings, assigned norms to each jurisdiction, and resorted to rewards and punishments. Such a state of affairs showed the relationship

between the central bank and specialized banks to be basically a funds supply relationship, and not a trust relationship. In particular, since specialized banks are national banks, when they issue too many loans, or when money is tight and they are unable to fund withdrawals by enterprises and individuals, naturally the central bank cannot just let them perish without coming to their rescue, so it is frequently forced to increase further credit to them. (3) **Banks and enterprises.** Trust relations between banks and enterprises should be manifested most clearly, but in China it happens that trust relations between banks and enterprises are on a very poor footing. This is shown, first of all, in enterprises continuing to eat bank funds out of a "large common pot." From the enterprises' standpoint, for banks to assure enterprises' production and administration fund needs is right and proper. When enterprises have retained profits, they can issue bonuses, increase welfare payments, or expand their investment in fixed assets, but they do not use the profits to increase their working capital because the funds gap can be filled by the banks. Thus, an equal trust relations is missing between enterprises and banks. No matter whether it wants to or not, the banks must assure a supply of funds. Second, bank loans can only increase, but never decrease. This is particularly true for enterprises on the verge of bankruptcy from whom banks certainly cannot take back loans according to credit principles. This is because the political repercussions of bankruptcy is seemingly more important than a bad bank loan. Under these circumstances, most banks are subjected to local government pressure to sustain these enterprises' survival. In addition, it is common practice everywhere for enterprises to use bank loans to pay the profits and taxes they owe the government, and to issue wages. Such activities completely lack the original meaning of trust.

3) The administrative mechanism of specialized banks is in need of improvement, the profit incentive mechanism and the risk limiting mechanism are out of balance. China's financial system reform had as one of its goals making specialized banks more like enterprises. In specialized banks that behave as enterprises, profit incentives and risk limitation should be opposite sides of the same coin. Motivated by profit, they should want to increase deposits to expand the scale of credit, but restrained by risks, they would have to be extremely cautious about the issuance of loans, holding the scale of credit within specific limits to guard against bad debts, and they would have sufficient reserves to be able to make payouts of individual deposits. In China, however, the process of making banks into enterprises overemphasized the former, i.e., the use of the profit retention system to stimulate specialized banks to expand the scale of credit, ignoring the establishment of a risk mechanism. For example, no rules and regulations were drawn up stipulating that when grassroots banks experienced a crisis in their ability to settle, they would have to become bankrupt and close their doors, or halt business for restructuring, or reorganize their leadership team. Consequently, grassroots level banks could not care less

whether a settlement ability risk exists. They persist in expanding credit in order to gain maximum profit. During a previous time, numerous grassroots level banks knew full well that the time would come when their credit would be withdrawn; nevertheless, in order to gain more profit, they did not repay the loans, and even continued to increase loans. This showed that the imbalance between the profit incentive mechanism and the risk limitation mechanism was yet another important reason for the crisis in banks' resettlement ability of recent years.

III. The Way Out of the Predicament: Several Suggestions About Financial System Reform in the Near Future

From the foregoing analysis, we can see that the financial predicament being faced today stems largely from defects within the financial system. Therefore, getting out of this predicament will require more steadfast and more pervasive financial system reforms. We believe that financial system reform in the near future should focus on solving the following problems:

1) Reform of the existing central bank leadership system for a strengthening of the central bank's independence. The central bank should be gradually transferred from the jurisdiction of the State Council to the NPC, becoming directly responsible to the NPC. The central bank's board of directors should be reorganized, the NPC directly appointing and discharging members of the board of directors, the percentage of currency and monetary experts being increased appropriately. This would have as its purpose making the board of directors into a special interest group for maintaining currency stability that is imbued with a sense of social responsibility, and that stands above administrative departments. In order to change the trend toward "localization" of central bank branch and sub-branch organizations, branch banks should be set up gradually along economic region lines to break the fetters that administrative regions impose, the manager of each branch bank being appointed directly by the head office in order to get out from under local government interference.

2) Pursuit of a unitary currency policy goal, putting proper amounts of currency into circulation in accordance with economic laws. The ultimate goal of future central bank currency policy should be to set dual goals of "a stable currency to advance stable economic development," so there is no further need to propose "a stable currency to develop the economy." The central bank should closely coordinate its activities with other macroeconomic regulation methods to promote stable economic development, thereby assuring steady rise in economic benefits for the whole society, and rational allocation and rational use of resources to modernize the economy.

In order to assure realization of the goal of a stable currency, a long-term annual currency supply growth

rate should be set to serve as a yardstick for measuring the supply of currency that the central bank puts into circulation. Theoreticians have different views about the setting of a currency supply growth rate. Our view is that in terms of overall principles, the currency supply growth rate for a plan period should be pegged to the normal economic growth rate, i.e., the currency supply should increase as the economy grows. A so-called normal economic growth rate is a growth rate set in terms of prevailing production capabilities and optimum economic benefits obtainable when resources are used in a rational way. For the next several years, it should not be more than between 7 and 8 percent. Should price reform occur, suitable consideration should also be given to the rise in the overall level of prices that price readjustments occasion. However, currency supply should be used only once to support price reforms in order to avoid repeated rounds of price increases. Once a currency supply growth rate has been set and ratified by the NPC, it should have the force of law, becoming a generally recognized standard that no department or individual has authority to change.

3) Improvement of the central bank currency policy operating system. In its role as a bank's bank, the central bank must be free from day-to-day credit matters, standing above the specialized banks, and gradually creating conditions for adoption of indirect methods to control the size of credit. This would include deft readjustments of interest rate levels as necessary, increasing the extent to which demand for funds is reflected in interest rates. During the present period of inflation when the circulation of cash outside the system is serious, it is particularly necessary to avoid negative interest rates and to realize positive interest rates. It is necessary to set up a standardized reserve fund system that enables the central bank to control freely the total amount of currency through basic currency. Active preparations should be made for gradual elimination of the cash control system. In addition, bank settlement procedures should be improved, specialized banks use of exchange channels to hold on to enterprises' funds prohibited, and turnover of funds in transit hastened, so that enterprises will voluntarily use account transfer settlement methods.

4) Improvement of the country's trust system, deepening trust relationships within the economy. Near term financial system reform should focus on reform of the most basic trust system, setting up standardized trust relationships between the government and banks, between one bank and another, and between banks and enterprises.

(1) **Trust relationship between government and banks.** The bank overdraft channel that government uses should be completely demolished henceforth. Governments short-term needs for funds should be handled through regular credit channels, requests for short-term loans made to the Chinese People's Bank, repayment required when due. Deficits caused by government expenditures in excess of revenues must be remedied by treasury issuance of national bonds and through the raising of

funds in financial markets. Insofar as availability of funds permits, the People's Bank may also buy a certain amount of bonds, or hold bonds as collateral against the issuance of credit to the government. (2) **Trust relationship between the central bank and specialized banks.** Specialized banks' ability themselves to balance the availability and use of funds should be improved to reduce their dependence on the central bank for funds. When an imbalance occurs, they should turn to the short-term lending market first to obtain them. Next, they should borrow funds from the People's Bank. People's Bank reloan must be repaid on the stipulated date, and the reloan interest rate should be increased suitably. People's Bank reloan methods should be changed from "unsecured issuance of money" to rediscounting so that loans are secured with collateral, increases in the currency supply thereby being truly in keeping with normal needs for national economic development. (3) **Trust relationship between banks and enterprises.** Use of banks as a large common pot for funds for enterprises must be done away with; banks accorded the right themselves to select to whom they will provide credit on the basis of national industrial policy, and on the basis of enterprises' returns and the amount of risk involved in lending them money. They should coordinate loan issuance with improving the economic environment and restructuring the economic order, and with readjustment of industrial policies. They should inventory enterprises whose performance is poor and that are verging on bankruptcy, auction off their assets, and do all possible to recover their loan funds. One problem urgently in need of solution at the present time is to get everyone concerned to accept commercial paper, to discount, and to issue loans against collateral. First is to get enterprises to use commercial paper in credit transactions, spelling out the rights and responsibilities of the parties concerned, and using the law to protect creditors' rights to demand payment. Second, specialized banks should be able to selectively discount commercial paper as its grade warrants, converting some commercial credit into bank credit. This would establish a standardized trust relationship between banks and enterprises, banks' issuing funds solely on the basis of commercial paper that represents commodity flow, thereby avoiding the issuance of loans for non-economic purposes.

5) **Perfection of the business operating mechanism in specialized banks for better limitation of credit risks.** The measures currently in force for running banks more like enterprises can only stimulate their expansion of the scale of credit, but they are of no help in macroeconomic financial control. While continuing in the future to arouse the enthusiasm of specialized banks through the profit motive, it is also necessary to establish a risk limiting mechanism to control business operations within certain limits. It is necessary to establish a complete system of norms for balancing the settlement abilities of specialized banks, such as the proportion of loans, excess reserve percentage, percentage of liquid assets, percentage of bad debts, and so on. These norms should be regularly checked, so that once these norms are

exceeded by a certain standard and a crisis of settlement ability occurs, the bank concerned should be compelled to halt business operations, undergo restructuring, and reorganize its leadership team. In addition to the tendering of statutory reserves, specialized banks should also be required to maintain a reasonable amount of excess reserves, and they should withdraw bad loan reserve funds from their retained profits to insure safety in operations.

6. During the present improvement of the economic environment and restructuring of the economic order, the central bank should be able to work together with all specialized banks in an earnest, diligent, and thorough housecleaning of corruption in the banking system, cracking down resolutely, particularly on the use of loans for private gain, and support for "official profiteering." Units and individuals about which there are serious questions should be punished without mercy according to law. Financial laws should be perfected, rules and regulations strictly enforced, and professional ethics improved to improve the ability of bank staff members and workers to oppose corruption.

Poor Loan Practices Detailed; Solutions Offered

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[Text] Since retrenchment was put into effect in September 1988, the outcry over the shortage of enterprise funds has brought new pressures on the state bank. Because Chinese currency is mainly released in the last half of the year and especially in the fourth quarter, it can be definitely stated that the contradiction between supply and demand of funds will become even sharper. Moreover, a shortage of funds and an inflation in the gross amount exist simultaneously. In the last few years, the extent of China's credit has expanded sharply. More currency was issued in 1988 than ever before. China increased its currency issue by 67.96 billion yuan, a 46.7 percent increase compared to 1987. Statistics show that the remaining sum of loans already exceeds 1 trillion yuan. Because such a large amount of funds is occupied and because of the magnitude of what is exaggerated, the majority of funds do not circulate. To coordinate the improvement of the national economy and rectification of the national economic order, the central bank has set forth a currency and credit policy for "controlling the gross amount, readjusting the structure, guaranteeing the key sectors, cutting back in general, and making timely adjustments." For more than a half year now, it has been achieving initial success. On the basis of stable economic growth, the amount of credit increases has been somewhat controlled. Up to the end of June, the remaining sum for various bank loans increased by 34.1 billion

yuan less compared to the same period in 1988. However, the job of cutting back on the amount of credit is still a considerable one.

Various categories of loans in China now amount to 1 trillion yuan, a huge amount of funds. Relying mainly on activating deposits while making optimization of the increased amounts subsidiary has been a major guiding theme in the state bank's effort to improve credit management and to support effective supply. The crucial reason most working capital is not circulating is because enterprises lacking in economic efficiency are sitting on it. According to a survey of one province, of the gross amount of various types of loans, 10 percent of the entire remaining sum of loans was overdue or lying idle. Calculations show that overdue loans or those lying idle amount to some 100 billion yuan. If 50 billion yuan were activated, it is entirely possible that the use of that amount could maintain 10 percent of the growth speed of the national economy. At present, the major reasons funds are being tied up are as follows:

1. The stocks of finished industrial products continue to climb. According to a survey of a particularly large industrial city, finished product funds accounted for a progressive increase of 12.53 percent each year since 1979. The main reason for the creation of the large growth in finished product funds is first, the commodity structure and the market demand structure do not match, thus creating more commodities than sales. According to a survey of 110 key commodities, more than 40 percent of sales of those commodities were level or were not selling at all. Most of these commodities are still being produced. Second, under the influence of macroeconomic retrenchment, the purchasing power of groups in society has been weakened, causing the sale of some commodities that were selling well to level off or to become unsalable. Third, the price of capital goods has skyrocketed. For example, nonferrous metals and industrial chemicals have increased several times over within one year.

2. Circulation accounts for a large amount of the increase in funds. The speed of its increase has been faster than that of production. The first reason for this is that commercial enterprise loans have increased too vigorously. The second reason is that the amount of unpaid funds owed by domestic and foreign trade departments to industrial enterprises has also greatly increased. The third reason is that the various new companies that have been set up in the circulation sector are absorbing some of the funds of industrial enterprises.

3. The situation with regard to unpaid accounts among enterprises is critical, and the funds needed to settle accounts are growing. In commodity trading, goods in great demand are often first paid for and then delivered. Unsettled accounts concerning goods payments vary from a few million yuan to several tens of million of yuan. Hard to sell commodities are often sold on credit or on a commission basis. The goods are first delivered and then paid for. This has brought the unpaid debt

situation to a crisis. For example, between 1985 and 1987, a major company's gross value for industrial production increased 16.1 percent, its sales income increased 31.4 percent, and at the same time, goods sent out increased 187.7 percent and accounts receivable increased 237.2 percent.

4. Enterprises acting on a short-term basis to meet profit targets are diverting loans to show false gains. Since contracting was instituted, some enterprises, to ensure profits and to ensure bonuses for their work force, have improperly apportioned funds or shown false gains for actual losses, covertly using working capital to increase the amount of profits they turn over to the state. Some enterprises, afraid they will not be able to turn over to the state the profits that they should, use the prices negotiated for the high-priced raw and processed materials to calculate costs and then use working capital loans to pay for the nonexistent profits. This creates false income for the financial administration, actual income for the work force, and actual losses for the enterprises.

There are many aspects to the reasons for the situation described above. First, Chinese enterprises are mainly societies within state-operated enterprises—societies which still have not set up sound social security systems. If an enterprise goes bankrupt, there is no way that society as a whole can assume the burden of the unemployed workers' lives. This has produced a number of unsettling social factors. For these reasons, these enterprises actually do have a legitimate right to exist. And the system whereby they are provided working capital loans is difficult to deal with on a fundamental level.

Second, the lack of effective loan interest rates encourages enterprises to go after credit funds. Because bank loan interest rates are outrageously low compared to the price of commodities, the use of loans has increased. In reality, loan interest rates are a negative interest rate. This not only encourages enterprises to go after credit funds, it also encourages them to waste these funds.

Third, the restrictions on granting loans are weak. The credit management system basically has not been changed. The "three investigations" system currently in effect for loans came into being under a highly centralized and unified system of economic planning. Its major defect is that its three processes of investigation before the loan, reinvestigation while the loan is in effect, and investigation after the loan is closed are not tied together. Therefore, there is no effective supervision over those who use the authority of their position, their connections, or other improprieties in obtaining loans.

Fourth, the policy on loan objectives is too sweeping. The state bank's loan policies are not formulated in line with the trends of the country's industrial policies. The credit policy of "dealing with each case on its own merits and selecting only the very best" in actual practice is often out of focus and even seriously distorted.

To resolve the problems of credit funds turning over too slowly, of their being held for too long, and of poor

economic efficiency, comprehensive reform in improving the economic environment and in forming matching sets must be instituted. What must be emphasized now are several issues having to do with management of credit funds.

1. Readjusting the credit structure. The crux of basically resolving the shortage of funds predicament is in properly readjusting the credit structure. The currency and credit general policy formulated by the central bank of "controlling the gross amount, readjusting the structure, guaranteeing the key sectors, cutting back in general, and making timely adjustments," must be conscientiously and thoroughly implemented. In readjusting the credit structure, the relationship between the part and the whole must be properly handled and it must be ensured that the credit structure conforms to the country's industrial structure.

2. Paying close attention to clearing up unpaid debts. The reasons unpaid debts exist are so complicated that they cannot all be taken care of in one fell swoop. The "triangular debts" that affect the normal functioning of the economy are urgently in need of being cleared up. What should be stressed in clearing up debts is that the process must conform to state policies on industry and to the demand that enterprises be economically efficient. The central bank has demanded that the reform in settling accounts must be coordinated and that the use of commercial instruments be strongly promoted so as to gradually introduce them in the credit transactions between enterprises. In addition, certain key enterprises must also be selected for resolving the problem of one set of goods and materials occupying several sets of funds. However, the central bank has also explicitly stipulated that, because of the unpaid debts connected with the cutbacks in capital construction, loans cannot be introduced to clear things up. Enterprises with false profits and actual losses and with overstocks of unmarketable products not only cannot use loans to help clear up their debts, their original loans must be recalled. The entire process of clearing up debts must conform to the principle of relying first on the internal system, then on the outside system, of relying first on the local region, then on the outside region, and of relying first on the easy, then on the difficult.

3. Toughening credit restrictions, reforming the credit system. First, an enterprise credit evaluation system must be gradually completed and classification standards for enterprises improved. To select only the best and limit the inferior, a foundation must be laid for readjusting the structure. Second, the guidelines and objectives of credit policies must be strictly in line with industrial development and they must underline the policy of "dealing with each case on its own merits and selecting only the very best." Third, management by objective must be instituted for loans and be strengthened with regard to the scope, structure, and beneficial results of loans. A good job should be done of reforming the three investigations system of investigating before the loan, of reinvestigating while the loan is in effect, and investigating after the loan is closed and a "three investigations" system established for managing mutual connections and strict interactions. Fourth,

the economic responsibility system for loans must be made sound and the three-way combination of responsibility, authority, and benefit must be gradually put into effect. From now on, the emphasis must be on resolving the issues of clearly delineating responsibility and of combining authority and responsibility, that is, who has the authority, who has the responsibility and how much authority and how much responsibility. Fifth, mortgage loans, risk guarantees, and other such business practices must be expanded and unsecured loans reduced. Loan security must be improved.

4. Further invigorating the funds market. The funds market must be developed more. Given the shortage of funds, it is absolutely necessary to invigorate funds for short-term loans. Lateral lending and borrowing of funds must be actively developed, and the time element and regional differences must be fully exploited in the use of funds, and the efficiency of their use must be enhanced. At the same time, enterprises should be encouraged to enter the market for the direct raising of funds. The central bank must strengthen the management of the funds market. Any locality or any enterprise that raises funds in the community must obtain the approval of the central bank and must conform to the local credit practices.

The above discussion presents several emergency measures for resolving the shortage of working capital. China must once and for all resolve the lack of economic efficiency in its loan practices. The majority of working capital in reality is not circulating. A number of coordinated reform measures still need to be implemented to deal with this problem. This definitely cannot not be accomplished by a single bank. This will depend on some large breakthroughs being made in the reform of the economic and political structures. For example, strictly controlling capital construction will ensure that its magnitude is adapted to the capacity of the nation. Establishing and gradually perfecting a system of social security will make enterprise bankruptcies a genuine possibility and will create the social conditions necessary for toughening credit restrictions. As for raising interest rates for working capital loans, in principle, interest rates should conform to commodity prices. Marked success has been achieved in intensifying the policies of reform by improving the economic environment and rectifying the economic order. In particular, the chaotic situation that existed in the economic order with regard to the circulating sector has basically been corrected.

INDUSTRY

Hunan Industrial Production Grows

HK0912012489 Changsha Hunan Provincial Service in Mandarin 2300 GMT 7 Dec 89

(Excerpt) Hunan's industrial production went up again in November. The situation of industrial enterprises being short of circulation funds has improved and a bumper harvest has been reaped in agriculture. The production in some light industrial enterprises using

agricultural products as their raw materials was boosted. Their gross industrial output value of the month reached more than 3.33 billion yuan, which was an increase of 2 percent over the same period of last year. The big increase in energy and raw materials production was a major characteristic of our industrial production in November. Generated electricity, refined crude oil, pig iron, and steel output were increased by a rate between 20 and 90 percent. In light industry, the situation of a continuous decrease in the past few months has been changed. Its gross output value rose 6.6 percent in November compared with the same period of last year.

As the state has adopted an inclined policy toward large- and medium-sized enterprises in the supply of energy, raw materials, and funds, production in a number of large- and medium-sized enterprises has been improved. By the end of November, more than 50 large and medium enterprises in our province had fulfilled their annual production tasks ahead of schedule. [passage omitted]

Light, Textile Industries Decline

HK1912084989 Beijing CEI Database in English
18 Dec 89

[Text] Beijing (CEI)—China's light and textile industry has kept going down and few favorable changes have been made to improve the sluggish market though it is the busy season for processing agricultural and sideline products.

According to informed sources here, the total retail sales in November decreased by 1.7 percent as against the same period of last year.

Production of 13 major light, textile and electronic industrial products all went down except cotton spinning, polyester and cotton blend, chemical fibre, paper and paper board, sugar and cigarettes, which increased as compared with the same period of last year. Household washing machine, refrigerator, TV set, beer, chemical fibre and wool fabric failed to fulfill the planned quota.

Planned Key Light Industrial Products for 1990

HK1912150989 Beijing CEI Database in English
19 Dec 89

[Text] Beijing (CEI)—The emphasis of light industrial production next year is to stabilize the market, improve quality and ensure the supply of daily necessities, according to the Ministry of Light Industry.

A 7 to 8 percent increase has been planned for the production of sugar, paper, salt, matches and soap, and funds and raw materials needed in their production will be given priority.

Priority will also be given to the production of export products, such as drawnworks and embroideries, canned food, carpets and electrical household appliances, as well as to the supply of raw and semifinished materials for the production of daily necessities and export products.

Meanwhile, tight control will be exercised over the production of hard liquor, air-conditioners, electromagnetic stoves and microwave ovens.

SMALL-SCALE ENTERPRISES

Township Enterprises Assessed

900H00404 Beijing NONGYE KUIJI YANJIU
[AGRICULTURAL ACCOUNTING NEWSLETTER]
in Chinese No 9, 8 Sep 89 pp 18-20

[Article by Ding Lushu (0002 1462 2873): "Launching Enterprise Assessment as an Important Path Toward Improving Township Enterprise Quality"]

[Text] With the new trend of "improving the economic environment, rectifying the economic order, and deepening the economic reform," township enterprises are facing the serious challenge of a situation that will allow only the fittest to survive. Township enterprises that are well managed and achieve good social and economic returns will in future have opportunity to prove their quality by developing to even higher levels of perfection, and will further enhance their contributions to socialist modernization, while badly managed township enterprises, with increasing costs of raw materials and production, in addition possibly producing products of little competitiveness in the market, will certainly find it difficult to survive. In so stern an environment, the most pressing question, namely how to enable township enterprises to survive, will be to adapt as soon as possible effective measures to improve production and business management. Practical experiences in China and abroad have proven that one important way to solve this problem is to carry out enterprise analysis and assessment.

Preconditions for Enterprise Assessments and Urgency for All Enterprises To Undergo Such Assessments

Enterprise assessment is in some countries called enterprise management consultation. It is a service performed by scientific enterprise management specialists with certain theoretical and practical experiences, who base their assessment on prior investigation and analyses and use scientific methods. When rendering this service, it is of utmost importance to use accurate business accounting data to show up all critical problems in the management of the enterprise in question, also to propose remedial measures, to render guidance, and to assist in implementation. It is a method that resembles a doctor's diagnosis and healing of his sick patient, and therefore might well be called "enterprise diagnosis." Since the method consists mainly in enterprises engaging in the services of expert advice and opinions, and problem solving, it may also be called an enterprise management consulting service.

Enterprise management and enterprise consulting services have been engendered and developed in the wake of socioeconomic developments and the development of

science and technology; actually, they have had a comparatively long history. Toward the end of the 19th century, Frederick Winslow Taylor (1856-1915), an American, a consultant-advisor studying labor productivity, was engaged in consultations to enterprises. Thereafter, enterprise management consultation rapidly developed in the United States and spread to Europe and Japan. The Japanese call consultations assessment analysis. Following World War II, with the development of science and technology and the fierce competition in the market, the business of enterprise diagnosis and consulting services rapidly developed. The subject of diagnosis and consultation services rapidly expanded from mere production management to the fields of business strategy and business policy decisions, and the organization of diagnosis and advisory services followed in the wake of this development. In the early 1970's, 70 percent of the total U.S. industry and 50 percent of the total Japanese industry improved business management with the help of consultant-advisors. In Europe, the United States, and in Japan, enterprise management diagnosis and consultation have become effective means of spreading modern scientific management techniques, and for improving business management and strengthening competitiveness. Since the beginning of the 1980's, the developing countries have also gradually started developing enterprise management consultation. The Chinese Enterprise Management Association began in the early 1980's to invite consultant-advisors from Japan, the United States, Great Britain, France, and the FRG to come to China and train consulting personnel, and has also sent Chinese personnel to the mentioned countries for study. During the last few years, many sectors and regions of China have carried out enterprise diagnoses and achieved outstanding successes.

Large-scale development of township enterprises has occurred only during a short period of the past, most of these enterprises are of poor quality, and very few use modern scientific methods of management, leaving a huge potential here for increasing production and effecting economies. Some enterprises have begun to use modern management methods, and have been able to enhance economic returns and social benefits quite markedly, while in most of these enterprises, management methods are backward, and their returns are unsatisfactory. Because their standards of production and business operations, as well as quality of management differ widely, they also differ widely in efficiency. This writer has carried out a computation and analysis on the basis of the 1988 Statistical Yearbook with regard to the 1987 economic returns in several provinces that have a comparatively larger number of township enterprises and discovered that there are great disparities between the various provinces (see table on next page).

For example, a comparison of Hebei and Jiangsu shows that profits per 100 yuan of original value of fixed assets and profits per 100 yuan of gross income were 3.28 times and 4.3 times larger for the former province than for the latter province, while working capital taken up for every 100 yuan of gross income by the former province was only 59.27 percent of the latter province. This was the result of a comprehensive computation that took provinces as units. If we examine the situation according to enterprises, and analytically compare enterprises within the same line of business, they differ, some by several times and some even up to more than 10 times, in the capital utilization rate and the rate of profit-tax revenue per product value. Sometimes, there are huge differences for same products in the per-unit consumption of energy and raw materials and in the per-unit costs of production between the various enterprises.

Table: Unit 1 Yuan

Provinces	Hebei	Liaoning	Jiangsu	Fujian	Shandong
Profit per 100 yuan fixed asset original value	30.64	19.28	9.35	18.91	10.71
Profit per 100 yuan of capital	16.61	8.66	9.92	11.53	9.48
Profit per 100 yuan gross income	13.21	7.37	3.07	7.72	8.60
Working capital taken up for every 100 yuan gross income	28.96	88.21	46.86	24.16	38.14

The conditions that we have just stated show us that in those enterprises that are badly managed and show poor results in their production and business operations, almost instant beneficial results could be achieved by launching enterprise analysis to seek out weaknesses in their business management and by adopting truly effective measures aimed at these deficiencies. Subjecting more advanced township enterprises to analysis may on the one hand enable them to discover still existing problems and to promptly improve their business management, and on the other hand enable them to realize their strong points, which they may then increasingly bring to bear. It is, therefore, urgently necessary at the present time to undertake enterprise diagnoses at all township enterprises.

Fundamental Substance and Methods of Enterprise Diagnosis

1. Main Substance of Enterprise Diagnosis

Enterprise management is of great complexity, and its diagnosis has many aspects; in sum, diagnosis has to be undertaken in three respects:

1) *Comprehensive diagnosis*. This comprises a diagnosis of the general condition, quality, business direction, and basic managerial performance of the enterprise. In carrying out enterprise diagnosis, it is generally necessary to start with a comprehensive analysis to recognize the production and business standards of the enterprise. For

instance, adopting the quantitative method to compute and analyze the overall quality of the enterprise will enable us to perceive the fundamental condition of an enterprise. The formula for this calculation is:

Rate of enterprise decline P = sales income at time of profit-loss balance, divided by actual sales income, multiplied by 100 percent

The higher the P value in this formula, the poorer the quality of the enterprise. If the P value is higher than 80 percent, the enterprise is truly in a very poor overall condition. Again, in analyzing business policy decisions, we should strive to achieve a dynamic equilibrium among the three elements of external environment, internal conditions, and business objectives. Comprehensive diagnoses must investigate whether policy decisions concerning the business operations of the enterprise are starting out from objective necessities and the actual capabilities of the enterprise concerned, and whether they maintain the socialist road. They must investigate the competitiveness of the product, including the product mix, quality, price, life-span, ratio of market share and coverage, marketing channels, sales methods, after-sale service, and prospects of new product development.

During the process of comprehensive diagnosis, a matter of importance is the diagnosis of fundamental management activities. This comprises a diagnosis of standardizations, norms, estimates, transmission of information, and capabilities for feedback, setting up rules and regulations, and training of personnel. While diagnosing quota work should be taken as the rule, it is necessary to examine the system of the various economic and technical quota norms of the enterprise. If the personnel carrying out the consulting services are familiar with the average advanced economic and technical standards achieved in the particular line of business in China and abroad, and if they effect an analytical comparison with the actual level of economic and technical norms in the enterprise under investigation, they will be able very quickly to assess the business and managerial level of the enterprise.

2) *Sectional diagnosis.* This kind is also called diagnosis of special fields and comprises diagnosis of production management, quality control, equipment management, materials management, technological management, labor and personnel management, financial management, cost control, and market and sales management. From a financial and accounting viewpoint, sectional diagnosis is mainly diagnosis of financial affairs and costs. Financial affairs diagnosis is primarily concerned with proposing measures for improvements on an investigation and analysis of the way capital funds are raised, supplied, used, and supervised. The focal point is effecting an analysis of returns from capital, analysis of production expenses, analysis of the relationship of profits to capital, and an analysis of the relation between costs on the one hand and prices and profits on the other hand. Cost control diagnosis consists mainly of proposing measures for the improvement of cost control on

an investigation and analysis of cost accounting and cost control conditions. The focal point is effecting an analysis of product costs and of the composition of such costs, analysis of product unit costs and the costs of comparable products, analysis of costs in relation to product quality and profits, and projecting targets for lowering product costs.

3) *Diagnosis of specific items.* This is the special diagnosis of certain crucial problems or outstanding representative problems. For instance, special questions in connection with the economic or technical benefits from the development of a new product or of plans for new designs; all these may be considered of this category. The peculiarity of diagnosis of special items is that it is forcefully targeted on one item and will yield quick results.

2. Procedure of Enterprise Diagnosis

When an enterprise engages the services of a specialist to carry out a diagnosis, it will generally adopt the following procedure:

1) *Signing of an employment contract.* The enterprise will offer employment to a relevant enterprise diagnosis organization or a specialist and will set forth the objective, the demands, and the fees for the intended diagnosis. After mutual negotiation and clarification of responsibilities on both sides, an employment contract will be signed.

2) *Investigation and preparation.* The executive officer of the enterprise will explain the overall condition of the enterprise to the personnel hired to undertake the diagnosis, and will at the same time familiarize all staff and workers of the enterprise with the purpose of the enterprise diagnosis, thus dispelling all unnecessary apprehensions and as a consequence enlist their active cooperation with the diagnosing personnel. Diagnosing personnel will effect thorough and painstaking investigations and interviews, collect and analyze all relevant data, and will furthermore do inspections on the spot and undertake actual surveys, on the basis of which they will formulate a detailed plan of diagnosis.

3) *Analysis and diagnosis.* Diagnosing personnel will process and arrange in an orderly form all material provided by the enterprise as well as the data they have compiled, investigated, and collected, using methods of analytical accounting and modern scientific and technological means, for a comparative analysis of economic and technical standards of the enterprise in question with those of advanced enterprises and the average advanced standards in the line of business in question. They will in this way seek out the "root of the evil," i.e. the major problems that exist in the business operations and management of the enterprise and the causes of these problems, and will propose a plans for improvement. After repeated critical reviews of the feasibility of the improvement plan, they will then submit a diagnosis report to the enterprise.

4) *Guidance and implementation.* The plan for improving business operations and management, as presented in the diagnosis report will then have to have the approval of the enterprise to be put into operation. When about to implement the plan, the diagnosis report must be published and made known to all staff and workers, to have everybody clearly understand the main problems that exist in the enterprise and the objective-oriented nature, the specific aim-oriented nature, the necessity, and the feasibility of the planned improvements, so that the improvement plan will have firm mass support. During implementation, the diagnosing personnel must render concrete guidance and assistance which must be thoroughly involved in the realities of the situation. On completion of the implementation of the plan, the diagnosing personnel must periodically or at irregular intervals revisit the enterprise and jointly assess the improvements that have been effected following their diagnosis and thereby impart a greater value to their enterprise diagnosis.

3. Principal Methods of Enterprise Diagnoses

There are mainly two methods of enterprise diagnoses, namely:

1) *The inductive method.* This method proceeds in three steps: (a) Collecting a variety of data by sight, sound, investigation, inquiry, and actual survey, and in this way investigating the actual conditions of the business operations and management of the enterprise. (b) Carrying out computations according to accounting, statistical, and trade principles to achieve a financial evaluation and analysis of the collected data. (c) Evaluating the results of the analysis and determining the main problems existing in the business operations and management of the enterprise and formulating a plan for improvements.

2) *The inferential method.* This method, too, proceeds in three steps: (a) Analyzing the business operations and management in the line of business in question and on this basis set forth the ideal objectives of the enterprise being diagnosed. (b) Analyzing the present state of the business operations and management of the enterprise in question and finding out disparities with the ideal objective, thus determining the main problems that exist in its business operations and management. (c) Formulating a feasible plan to achieve the objective.

In the actual practice of enterprise diagnosis, the above-stated two methods are frequently combined.

Realistic Feasibility of Launching Diagnoses of Township Enterprises

Provinces (autonomous regions), municipalities, prefectures, and counties have by now all set up competent organs in administrative charge of township enterprises, and these organs have at their disposal a considerable number of staff with special expertise in the management of enterprises. This fact provides a solid basis for the feasibility of embarking on enterprise diagnoses. At present, we must clearly realize the great significance and

urgency of launching enterprise diagnoses. Based on this realization, the organs at all levels charged with the administration of township enterprises must organize personnel who are well qualified to carry out enterprise diagnoses, and set up special enterprise diagnosis organs, which shall then, in an organized and well-planned way, launch all-out enterprise diagnoses, and make enterprise diagnoses an important organic part of the regular work of township enterprise administration. All municipalities and counties shall align township enterprises according to categories and carry out diagnoses one by one. This will greatly enhance the quality of business operations and management of township enterprises. In the process of launching enterprise diagnoses, it will be possible to gain many new experiences as to how to improve enterprise management, and through enterprise diagnoses and the widespread dissemination of all this information it will be possible to rapidly achieve a completely new look for all township enterprises.

There are two kinds of enterprise diagnoses, depending on diagnosing personnel; the enterprise diagnosis itself and outside diagnosing personnel diagnose the enterprise. Enterprise diagnosis is an activity of great practical value. Apart from inviting experts from outside the enterprise to make the diagnosis, self-diagnosing by the enterprise itself is even more realistic and practical. In township enterprises that have at their disposal a certain number of staff who are well qualified for enterprise diagnoses, such staff may be organized by the responsible department to carry out self-diagnosis. This would enable a comparatively larger number of enterprises to engage simultaneously in diagnosis and in efforts to improve their business operations and management. If on this basis diagnoses can also take place in stages and in groups by diagnosing personnel outside of the enterprise, the results can be even better.

FOREIGN TRADE, INVESTMENT

Prospects For Investment Climate

90OH0064A Chongqing GAIGE [REFORM] in Chinese No 3, 20 Sep 89 pp 42-46

[Article by Ji Chongwei (1323 1504 1218): "Evaluation and Developmental Prospects of China's Investment Climate for Attracting and Absorbing Foreign Capital"]

[Excerpt] III. China's Investment Climate and Developmental Prospects.

China is a large socialist developing country with a vast territory and great differences in natural geology and communications as well as in economic and cultural conditions. For the last 10 years, China has undergone huge changes in its political, economic, and social systems and in the way it has opened up to the outside world. Any analysis of its investment climate must therefore differentiate between regions and must be carried out from the angle of a dynamic development.

Financial circles and businessmen from various countries are also divided in their evaluation of China's investment climate. As to Japan, which has always taken a cautious and hypercritical attitude toward investments in China, the mission organized in 1988 jointly by Japanese official and private circles to investigate China's investment climate, said in its report: "China, since instituting structural reforms and adopting a policy of opening up to the outside world, although these measures have now been in effect for only 10 years—according to what we have seen during our inspection tour—has achieved astounding economic developments during this period. China has made considerable progress in its investment climate during these years by perfecting its legal system. It has also spent considerable energy on building up the infrastructure of its designated economic development zones, which is a point we can attest to after our tour of inspection." The president of the Asia Development Bank, Fujioka, said with regard to China's economic condition at a press conference held on 9 May 1989 at the bank: "China's investment climate is quite good, and the student demonstrations cannot have an adverse effect on the improvement of its investment climate."

I personally believe, we have to evaluate the Chinese investment climate in a realistic and objective and scientific way, which means to affirm its strong points and advantages without hiding its shortcomings and problems, and we must also take note of its developmental trend and prospects. In China, foreign-invested enterprises have increased during the last 10 years from a mere 20 to more than 15,000 (in the first 4 months of 1989 another 2,001 businesses had their projects approved). Actual investments of foreign capital have increased to over \$12 billion, which goes to show that the Chinese investment climate has become more and more advantageous for investments by foreign businessmen.

In summing up the views of many foreign investors, the following are some of the basic strong points in the Chinese investment climate:

1. Political and social stability. There is solidarity between the different nationalities and freedom of religious beliefs, as well as absence of sharp national confrontations and religious clashes. China has promoted friendly relations of peaceful coexistence with its neighbors and all other countries of the world, and ensured a peaceful environment in which long-term economic construction can be pursued. The disturbances that have occurred this year in May and June at Beijing have essentially been allayed; the Chinese Government is absolutely capable of controlling the situation and will also guarantee the future stability of the political and social situation.

2. A vast and substantial market of 1.1 billion people, a very rapid rate of economic development, as well as a rapid improvement in the living standards of the population. If the annual average income can be increased from this year on by \$100, it would have the purchasing power reach \$11 billion; the potential here is very large indeed.

3. An abundance of various resources, such as minerals, energy, in agriculture, and for tourism. All these await exploration and utilization. The diversification of the economic structure and the broader opening up of China provide foreign investors with many investment and profit-making opportunities.

4. Ample manpower, low wages, and a labor force which is of a comparatively high quality and consists of generally diligent workers. They are eager to learn and are well disciplined. Labor disputes are rare. Under scientific management and a distribution system that remunerates according to work performance, it will be possible to quickly raise their technical proficiency and productivity.

5. China has a certain foundation in science and technology, also in cultural and educational respects, and has modernized industries and communications, which makes it easy to absorb and assimilate imported technologies and managerial experiences, as well as capable of supplemental work and of achieving new creations.

6. China is in the process of economic structural reforms and of developing a planned commodity economy. It is now progressing toward a separation of government administration from enterprise management and toward greater autonomy for enterprises. The proportion of business run on privately owned and collectively owned systems is on the increase. The sector of the economy under market regulation is gradually expanding, and business operations of the enterprises and the whole national economy are continually gaining in vitality.

7. The Chinese Government and the Chinese people greet with a friendly welcome all foreign investments and will support them to the utmost. The relevant departments will give serious attention to problems or difficulties encountered by foreign-invested enterprises and will do their utmost to resolve such problems and difficulties.

8. All necessary laws and regulation concerning foreign investments are essentially in place and are being gradually improved to achieve even greater perfection. In the next few years, a further 30-odd laws and regulations which have a bearing on foreign economic relations will be enacted, such as a company law, a copyright law, a bankruptcy law, an insurance law, and so on. China has already joined the "Paris International Convention for the Protection of Industrial Property" and has become a member of the "International Organization for Intellectual Property Rights." China is at present earnestly at work strengthening its efforts to protect intellectual property.

Although China's investment climate has much improved during the last 10 years, it still cannot be considered very healthy by international standards. With regard to the "hard environment," there are still some places where communications and transport are unsatisfactory, where international telecommunication facilities are not available, where supply of electricity and water is insufficient, and where conditions are unsatisfactory for the supply of raw materials and for necessary

coordinating or supplementary manufacture. With regard to the "soft environment," because China is just now in the process of effecting a transition from an old to a new system, some demands posed by the normal production and business operations of foreign-invested enterprises still cannot be fully met in such areas as capital fund accommodation, commodity prices, economic accounting, recruitment of well qualified personnel, labor wages, open disclosure of information, respect for international practices or customs, and others. In the administration of foreign-invested enterprises and in rendering services to them by certain local departments and units, we still encounter, to varying degrees, such phenomena as bureaucratism, low efficiency in work performance, lack of proper esteem for the legal system, a disregard for existing laws and lax enforcement of law, interference in the autonomy of foreign-invested enterprises to manage their own business operations. Government organs at all levels are giving serious attention to all these problems and are making strenuous efforts to improve the situation.

The most important task in efforts to improve the investment climate is to successfully operate the present foreign-invested enterprises and to complete construction and achieve earliest start of operations of enterprises for which contracts have been signed or which are now in the process of construction. At present, special cooperation and assistance must be given to the resolution of difficulties that foreign-invested enterprises encounter in the supply of energy and raw materials, and in cooperative manufacturing operations. Where there is a shortage of power, all local governments must preferentially ensure power supply to joint-venture enterprises. While this is a year in which the state is exercising retrenchments in the granting of loans, the Bank of China has made a larger amount of loans available to foreign-invested enterprises.

In summary, we may say that with the progress of China's democratic and legal developments, with the success in economic improvement and rectification, and structural adjustments, there are bright prospects for economic development. Foreign entrepreneurs who intend to invest in China and to engage in various forms of economic and technological cooperation can certainly look forward to a bright and splendid future of their investments in China, as long as their attitude is one of patience and cooperation.

Analysis of Procurement System

90OH0131A Beijing GUOJI SHANGBAO in Chinese
11 Nov 89 p 3

[Article by He Jiabao (0149 1367 1405): "Adoption of Agent System Should Not Entirely Preclude Use of the Procurement System"]

[Text] Comrade Editor:

Adoption of the agent system requires a fairly coordinated economic environment. The current proposal that

all trades and industries adopt it is ill conceived. In addition, adoption of the agent system by all trades and industries does not mean that the procurement system should be completely rejected.

Before system reform, and during the initial period following system reform, the procurement system as a management method gradually changed from being a planned procurement system, which was nominally for procurement but was actually for allocation, to becoming a procurement system for commodity exchange. However, with enterprise management becoming increasingly anchored in a mechanism for autonomous decision-making and enterprises being responsible for their own profits and losses in recent years, a procurement system characterized by commodity exchange in which enterprises' returns are fundamentally can no longer accommodate an economic form that does not market products inside China. This slack situation is not conducive to the integration of industry and trade.

However, when analyzing the procurement system, it seems that its background should be raised. The agent system was proposed back in 1983 when the product commodity model still held absolute dominance in foreign trade; thus, the agent system proposed at that time meant, to a very great extent, the traditional planned procurement system. However, when the agent system is vigorously practiced today, it is against a background of a very great departure from the product economy model managed by the foreign trade sector. If we do not make a concrete analysis of a procurement system whose intension has undergone very great changes, we may very possibly look at the presently practiced agent system reform in terms of the planned procurement system when it was in need of reform, thereby completely underestimating results obtainable from the role of the existing procurement system.

A procurement system characterized by commodity exchange causes a clash between the interests of industry and trade. In particular, when a contract system is in operation, it continues to cut off direct contacts between producing enterprises and international markets. Additionally, in the final analysis, the party engaged in foreign trade is not the ultimate buyer. The foreign trade party's returns are ultimately still decided by the factory's products. A domestic shortage of supply of available goods often puts the factory in the dominant position of being able to sell in a seller's market; correspondingly, the foreign trade party has no choice but to resign itself to the situation. Besides, the commodities by the producing enterprises for export are not what they are used to be under the big pot system in regarding their quality, quantity, and delivery deadlines. In order to help the entry into international markets of more and better products, foreign trade units may also begin to pay attention to relaying information to producing enterprises, or allow producing enterprises themselves to send people to take part in professional talks and to make inspection tours abroad, thereby easing, to a certain extent, the separation of factories from international

markets. In addition, in order to get sources of supply of readily salable goods from factories, traders have also taken on the responsibility of providing factories with raw and processed materials, and they have also expanded the amounts and the lines of goods they buy. In addition to their motivation in getting sources of supply of goods, traders also develop lateral links through joint management, participation in the stock share system, and the formation of coordinated groups, all of which may be regarded as effective ways in which to advance the integration of industry and trade.

Thus, the socializing role of business requires that the procurement system continue to exist within certain confines. The socializing role of both foreign trading companies in the commodity circulation field and of domestic businesses has an effect on overall economic performance. However, because of their specialization and the lack of diversification of their products, production enterprises' costs are frequently substantial when they themselves undertake to export or act as agents for exports. Therefore, acting as an agent is generally appropriate when a large volume of products is involved even though they may not be diversified. It is not applicable to a complex variety of products in small amounts.

The agent system is usually used for products that can be supplied directly for export. Raw and processed materials that have to go through trading companies for further processing are better handled through the procurement system. For example, a substantial portion of the products of the tea, livestock, and silk industries that trading companies purchase have to go through plants under company jurisdiction, or be sent out to processing plants for processing to increase their value before they can be exported.

The agent system usually plans production on the basis of orders, products being exported through foreign trading company agents. This requires an extremely close partnership between industry and foreign trade. However, it is for this reason that this system may not be as flexible as for a foreign trading company to handle exports alone under the procurement system. Because of the very changeable situation in international market supply and demand relationships, the ability to make prompt decisions at the opportune moment is extremely important. Under the procurement system, foreign trade companies frequently have goods on hand that can be shipped at any time. Therefore, because foreign trading companies have complete authority to make arrangements, the procurement system may sometimes be more flexible in responding to international markets.

One point that should be particularly noted is that the reason most traders today generally support, or at least do not oppose, adoption of the agent system is because they are weary of the repeated difficulties in procuring supplies of merchandise, and because of their feeling of relief at the transfer of risk once the agent system is adopted. The government should pay prompt attention to this situation. Right now, foreign trade competition is

intense both inside and outside the country, and the competition that comes from within the country is no less than the competition that comes from outside it. Foreign trade system reform is unrestrained and ever changing; the steps taken are very big, and local government norm requirements for contacting are also not low. These factors also dictate that foreign trading companies not put down their burdens yet. Promotion of the agent system must go on, but at the same time, attention must be given to dovetailing and stabilizing it, maintaining the procurement system within a certain area. Should promotion of the agent system not go smoothly for various limiting reasons, sustained growth of foreign trade exports might be hurt; therefore, room for maneuver must be kept while deepening reform.

Xinjiang, USSR To Cooperate in Power Production

*HK2712125789 Beijing CEI Database in English
0835 GMT 7 Dec 89*

[Text] Urumqi (CEI)—Xinjiang has recently signed agreements of intent with the Soviet Union's Kazakhstan for cooperation in power production after investigation by experts on the thermal power plants, heat and power stations, transformer substations and other power facilities of the two sides.

According to the agreements, Kazakhstan will provide equipment for the no. 9 generating unit in Xinjiang's Hongyanchi power plant and for a heat and power station to be built in Urumqi.

Kazakhstan will help Xinjiang upgrade its existing condensing thermal power plants and offer technical advice and consultation for the project.

Xinjiang will, in return, provide Kazakhstan with technical advice and consultation for the use of computer in electricity industry and techniques for the examination and repair of electricity networks, including those for live-wire work and drying distributing transformers.

A feasibility study has been made on supplying power by Kazakhstan to Xinjiang's border areas which are short of electricity supply and both sides have agreed to make preliminary preparations for the project.

Tianjin Signs Labor Service Contract with Soviet Union

*SK1512122189 Tianjin City Service in Mandarin
2300 GMT 14 Dec 89*

[Text] The municipal international economic and technological cooperation company and the (Shida) international economic and technological company jointly signed a contract with Ukrainian Soviet Socialist Republic on building four projects in Gorlovka City, and the export of labor service for it, was signed in Tianjin a few days ago.

Shanghai Company Exports Software to U.S. Corporation

OW2012203989 Beijing XINHUA in English
1549 GMT 20 Dec 89

[Text] Beijing, December 20 (XINHUA)

The Baoshan Iron and Steel Company in Shanghai has sold \$30,000 worth of computer simulation software to Unisys Corporation, a computer producer in the United States.

This is the first time a Chinese iron and steel company has exported computer software. Unisys experts say the software performs satisfactorily.

Transfer of Property Rights to Foreigners in Progress

OW2312122589 Beijing XINHUA in English
0712 GMT 23 Dec 89

[Text] Beijing, December 23 (XINHUA)—Property right transference to foreigners has begun in China as a new attempt in foreign capital introduction under the current austerity situation, according to an article in ECONOMIC DAILY.

Some state-owned enterprises in Guangdong and coastal cities have set out to try property right transference by selling shares to foreigners.

The article says such practice might help many industries out of financial difficulties by importing equipment to accelerate technological transformation and structural readjustment.

Moreover, it might enable domestic enterprises to enter international markets through the sales channels of foreign traders.

With their existing workshops and equipment, workers and technicians, industries might begin functioning immediately with the foreign investments, saving much time of preparing, which is beneficial to both sides.

Almost all the nations' enterprises suffer poor utilization rate of productive ability, with machines idle. This is a serious waste, while it also means loss of potential profits, according to the article. Property right transference is evidently a remedy, it said.

The Dalian Anchor - Chain Co. Ltd. is a typical example. The company was once a workshop of the Dalian Shipyard, producing anchor-chains. Despite its excellent facilities and sound technological competence, it had been in debt for six years for lack of funds and advanced key equipment.

Not long ago, however, the factory reached an agreement with a company in Hong Kong. According to the agreement, the factory contributed its workshops and equipment as investment, while the Hong Kong side provided

other facilities and technology. The two sides set up the Dalian Anchor - Chain Co. Ltd.

To people's surprise, it took merely 70 days for the new company to go into production. With quality coming up to world standard, and varieties increasing to 30, some 95 percent of its products have poured into foreign markets.

Encouraged by the experiment, more than 70 industries, heavy and light, in Dalian have adopted the "grafting" of their own workshops and equipment with foreign funds, technology and management. The contracts are worth more than 100 million yuan, and the 20 new enterprises which have gone into operation all net profits, according to the article.

Such "grafting" has not only been welcomed by foreigners, but also gained the support of the government.

However, problems in connection with the "grafting" need special attention, the article noted. As soon as property rights are transferred to foreigners, the enterprise becomes a Sino-foreign joint venture and a wholly foreign-owned venture, relevant departments of the state must hence give them priority in energy and raw material supply, transportation and other services.

It should also be noted that the joint ventures set up by property right transference are quite different from those newly established, and some problems involving them cannot be readily handled in accordance with the existing policies concerning Sino-foreign joint venture, the article said.

State-owned industries must hand over part of their products to the state. Should this practice continue after they become joint ventures? The state provides state-owned industries with materials at prices lower than in the markets. Shall they continue to enjoy this privilege? With foreign traders taking charge of the enterprises, who shall take care of dismissed workers? The foreign managers are certainly not responsible for the former retirees of these enterprises, but who will look after them?

All these problems entail a series of new policies so as to promote the progress of the basically desirable drive, the article said.

Auto Industry Exceeds Export Target

HK2712131989 Beijing CEI Database in English
0852 GMT 27 Dec 89

[Text] Beijing (CEI)—China National Automotive Industry Import and Export Corporation (CNAIIEC) overfulfilled its target of \$100 million in automotive export ten days ahead of schedule.

Zhang Cundao, general manager of the CNAIIEC, said his corporation has overcome difficulties stemming from the shortage of funds, energy, materials and transport

capacity, and reached foreign currency earnings of \$101 million more than the figure for last year.

The main items of export included buses, trucks, mini-buses, light trucks and automotive spare parts, which were sold to North America, the Middle East, Africa and Southeast Asia.

Of the total, spare parts accounted for 60 percent, including water tanks, steel plate springs, engines, and screw nuts, which were mainly exported to the United States.

The biggest specialized foreign trade company of China's automotive industry, the CNAIEC has set up branch companies in Beijing, Shanghai, Nanjing, Hong Kong, and an agency in Detroit, United States. It has also entrusted agents in the United States, Thailand, Pakistan and Hong Kong.

He said the target for next year's export is still \$100 million. But he added the quota for the Eighth 5-Year Plan (1991-1995) will be much higher.

Since 1991, he explained, the average growth of automotive export of the CNAIEC is expected to be 15 to 20 percent, with the export for 1995 accounting to \$300 million.

For this end, he said, the corporation will have to readjust the structure of export and shift its exports from labor-intensive products to technology-intensive products.

Meanwhile, he added, the corporation will extend its world market. While consolidating its footing in the automotive market in Southeast Asia, it will strive to make its way to the markets in North America and Western Europe, he said.

ECONOMIC ZONES

Zhejiang's Wenzhou City 'Thriving'

HK1412013389 Hong Kong SOUTH CHINA
MORNING POST in English 14 Dec 89 p 15

[By Daniel Kwan]

[Text] A senior official of Wenzhou, internationally known as China's capitalistic haven, has spoken highly of the further development of the private economy despite Beijing's recent efforts to clamp down on non-state-run and individual enterprises.

Speaking after a trade promotion function in Hong Kong yesterday, Mr. Zhang Huabiao, director of the Municipal Planning Commission of Wenzhou, said that private business in the city in Zhejiang Province had not been seriously hurt under the economic austerity programme.

Mr. Zhang's remark reflected the great disparity between the local authorities and the central Government, which insists that central planning should play a dominant role in the national economy.

The conservative leadership has blamed the country's runaway inflation, corruption and misplacement of resources on the rapid expansion of the private sector.

"One third of our taxes and revenue come from the private sector. If a lot of our private businesses have been closed down, where will we get our money from?" he asked.

According to Mr. Zhang, who is leading a 20-member delegation to Hong Kong to attract investment, Wenzhou registered a 18 per cent increase in tax and revenue in the first 10 months of the year. Last year's total was 750 million yuan (HK\$1.57 billion).

Defending the importance of private economy and the continuation of the open door policy, Mr. Zhang said: "The fact that we can come to Hong Kong to talk business is a sign that rumours of tightening of control on the private sector in Wenzhou and the rolling back of reform are not true."

He said only about 5,000 private businesses have been closed down this year; this represented an insignificant 2.2 per cent reduction from last year.

According to Mr. Pan Piliang, bureau chief of the Industry and Commerce Administration Bureau, Wenzhou now has a total of 141,000 registered private businesses with about 173,000 employees.

Nicknamed "Small Shanghai," Wenzhou is world famous for its private economy, which has grown rapidly due to the liberal economic policies encouraged by the former party secretary general, Mr. Zhao Ziyang.

Wenzhou is also the first city in China to set up private banks.

Mr. Zhang also denied that the liberal leadership in his city had been purged since the Tiananmen Square massacre.

"We (government officials) are employed on a three-year term and we just renewed our tenure last year. The next review will not come till 1993," he said.

He also denied that corruption was rampant among cadres in Wenzhou. No senior official of the government had been arrested on corruption charges so far.

The closure of private business, according to Mr. Zhang, was due to the merging of small private companies and competition between rival companies.

"The merging of companies has led to a reduction of the number of private businesses this year, but actually we have more private business units this year than last year," he said.

Xiamen Reports 33,000 Program-Controlled Telephones in Use*OH-2712092089 Beijing XINHUA in English
1236 GMT 25 Dec 89*

[Text] Fuzhou, December 25 (XINHUA)—Twenty thousand program-controlled telephones have been switched into service recently in the xiamen special economic zone in Fujian province, bringing the city's total of such telephones to 33,000.

The telephone project started in June last year and cost 25 million yuan (about \$3.32 million).

TRANSPORTATION**Need for Railroad Improvement***90010035A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 16 Sep 89 p 1*

[Article by Yan Jiesheng (0917 0094 3932): "Railroads Before the Year 2000—Forecast of Railroad Transportation Based on the Development Plans in the Eighth and Ninth 5-Year Plans Being Formulated"]

[Text] I cannot say with certainty how many times I have consoled travelers and cargo owners, who were in a great rage because they couldn't buy tickets or couldn't transport freight, in the following way: by the year 2000, when the "quadrupling" will have been achieved, the railroads won't be like this. Even if my explanation of the railroad situation, in which "it is difficult to travel" and "it is difficult to transport freight," is regularly rebutted, the prospect of the railroads "getting better" seems to be recognized by everybody.

Unexpectedly, an expert who has studied the railroad development plans poured cold water on me: according to the railroad development plans in the Eighth and Ninth 5 Year Plans now being formulated, the tight situation in railroad transportation, especially in freight transportation, will not be relaxed all that much.

A Big Difference From 1:0.5

The plans for railroad transportation volume envisage: to insure that by the year 2000 China will have quadrupled the annual gross value of industrial and agricultural output and the people's material and cultural life will have reached "comfortably well-off" level, the railroads must attain the following transportation volumes:

By 1995 and 2000 freight transportation must respectively increase, as compared with that of 1985, by 28 and 49 percent.

With 1988 as the base and with an average annual growth of 4 percent, passenger transportation by 1995 and 2000 must respectively rise 31 and 64 percent.

The conversion and turnover volume in 1995 must have grown 60 percent as compared to the actual volume in 1988, and by 2000 must have grown 36 percent as compared to that of 1995.

Another important part of the plans is: for the railroads to complete the abovementioned annual increase in passenger and freight volumes, they must step up construction and constantly expand their transportation capacity. The "greatest possibility envisaged" by the planning bureau of the Ministry of Railways is:

By 1995 the railroads' operating distance must increase to 61,000 kilometers, a rise of 15 percent as compared to that of 1988; there must be completed more than 6,000 kilometers of electrification, so that the electrification rate will be 13.1 percent higher than that in 1988; and there must be an increase of 4,000 kilometers in multiple track distance, so that the multiple track rate will be 5.7 percent higher than that in 1988. Additional fixed equipment and the matching locomotives, freight cars, and passenger cars will be purchased. By 2000 the railroads' operating distance must at least increase to 70,000 kilometers.

Now to balance the accounts to show the most gain: in the plans there is the growth of passenger and freight transportation volumes and the expansion of the transportation capacity; if these things occur without a hitch, what will be the situation in transportation?

First, look at the "elastic coefficient." According to what has been determined, for every 1 percent growth in the gross value of industrial and agricultural output, the railroads' transportation volume must roughly grow a corresponding 0.5 percent to maintain a balance. By 2000 the gross value of industrial and agricultural output is to quadruple, which also means a 400 percent growth in 20 years. From a look at the forecasted railroad freight transportation volume, the 1.08 billion tons in 1980 will grow to 2.1 billion tons in 2000, a growth of only 94 percent in 20 years and an elastic coefficient of 1:0.23 in 2000. Although this would be a rise compared to the 1:0.147 in 1988, it would still be a big difference from "1:0.5."

The comrades of the planning bureau in the Ministry of Railways think that what reflects the transportation situation most is the planned average conversion transportation density, which is also the actual operating volume of every kilometer of railroad line. According to what is envisaged in the Eighth and Ninth 5-Year Plans, if new line construction reaches the stipulated distance and the passenger and freight turnover volumes reach the stipulated amounts, in 1995 the railroads of China will have an average transportation density of 34.42 million ton-kilometers/kilometer, and in 2000 the figure will be 41.86 million kilometer-tons/kilometer. To make the reader understand what these two figures mean, we might as well "gain new insight through restudying old material" by looking back on the situation in 1988.

In 1988 the average conversion density of China's railroads was 24.86 million ton-kilometers/kilometer, 2.5 times that of Japan and 4.3 times than of America, only behind that of the Soviet Union and occupying second place in the world. However, the equipment standard of China's railroads, including the multiple track rate, electrification rate, locomotive power, and communication and signal facilities, was very backward as compared to the equipment standard of these countries. For China's railroads to attain such a high efficiency as theirs, it would be a case of "an emaciated horse pulling a heavy cart" and a case of "draining the pond to get all the fish." The result would be: reduction in maintenance time, fall in the safety coefficient, overloaded equipment, commonly occurring behind-schedule trains, and a service quality not worth talking about. The railroads, which originally only had a passenger transportation capacity of 2.7 million person-times, in reality, daily transported an average of more than 3.33 million person-times. Everyday 630,000 persons rode trains, and a large number of travelers could not buy tickets and were detained at railroad stations. In the entire railroad system, there were more than 20 restricted crossings for freight transportation. Year after year, the rate of meeting the plans for cars had fallen, and in 1988 it was only 67.8 percent. A large amount of freight was overstocked and awaiting transportation, and many coal mines "fixed their output on the availability of transportation." Travelers riding on trains, cargo owners transporting freight, and railroad personnel running trains—all of them complained of hardship and suffering. This was the situation under the conditions of existing equipment—in 1988 the railroads' average conversion transportation density was 24.86 million ton-kilometers/kilometer.

But in 1995 the average transportation density of China's railroads will be 38.5 percent higher than in 1988! In 2000 it will be 21.6 percent higher than in 1995. That is to say, the rate of growth in passenger and freight transportation volume will still be far higher than the rate of development of the railroad network. It is true that the level of the average conversion density of the railroads is related to the level of the technological equipment of the railroads. However, comrades of the relevant department in charge at the Ministry of Railways think that even if the raising of the level of China's railroad equipment in the next 12 years is factored in, the conclusion is still: the transportation load on China's railroads will be heavier than it is now, and the contradiction between transportation capacity and transportation demand will be more prominent.

Two Worries

In addition, there are two things that people worry about when looking at prospect for railroads in 2000.

First, the pressure in future years will make the railroads' actual transportation volume exceed the plans by too great a margin. A comrade of the planning bureau in the Ministry of Railways said that the calculated railroad

transportation volumes in the Eighth and Ninth 5-Year Plans were based on a 7 percent annual rate of increase in the gross output value of industry and agriculture, which was calculated with reference to the main industrial production indices set by various departments and with the application of various mathematical methods. According to the strategic deployment determined by the state for the achievement of the struggle goals by 2000, the annual growth rate of the gross output value of industry and agriculture is to be maintained at 7 percent, which is the minimum rate for insuring the 20-year quadrupling. If our economy goes through several years of readjustment and then in the future gets on the track of healthy development, the annual growth rate should be 7 percent. Therefore, by 2000 the railroads will handle 2 billion person-times, and a transportation volume of 2.1 billion tons of freight and 2.93 trillion ton-kilometers—this is certain.

Second, it is highly likely that the railroads' own development plan will fall short. In the 5 years of the Seventh 5-Year Plan, in railroads the focus of investment was put on the technological transformation of old lines, and arrangements were made to build only 3,809 kilometers of new lines. However, given the present progress, it may already be affirmed that by 1990 only 2,973 kilometers will have been built, 827 kilometers less than planned.

By 1995 there are to be 61,000 kilometers of railroad lines, and this will require the building of an average of more than 1,400 kilometers a line for five years in succession—a prospect that does not permit optimism. The period for railroad building is very long. One line, from beginning work to completion, from opening to traffic to fully displaying its designed efficacy, generally takes eight to ten years. Therefore, for no matter what reason, there will be another delay, and it is highly likely that it will be difficult to complete on schedule the Eighth 5-Year Plan's new line building plan; thus, progress in railroad building in the Ninth 5-Year Plan will be adversely affected.

It seems unavoidable that the transportation volume will break through the plan, and it is highly likely that the originally important plan for expanding the transportation capacity will come to nothing, even though only a small part of it comes to nothing. This kind of increase and decrease, and the future "more prominent" contradiction between transportation capacity and transportation demand, are bound to be a case of "frost on top of snow"—one disaster after another.

Why did China's railroads get into the passive situation that they are in today? The main reason is insufficient investment. In 1986 the state permitted the Ministry of Railways to put into effect the system of large-scale responsibility, that is, it decided to take a realistic step to solve the funds shortage problem that had hampered railroad development for a long time. Although there were skyrocketing prices and the consequent steep rises in transportation costs, in the first three years of the large-scale responsibility system the railroads still

depended on their own profits. Besides handing over to the state 3 billion yuan in taxes, they accumulated 17.5 million yuan in building funds, nearly double the investment in the railroads made per year by the state in the Sixth 5-Year Plan period. The replacement and transformation expenses per year reached more than 3.6 billion yuan, a 85.9 percent increase over these expenses in the Sixth 5-Year Plan.

However, the railroads' large-scale responsibility system has now fallen into dire straits. Not only have problems occurred in the system itself, but when the plan for it was being formulated the large rise in prices for raw materials, fuels, and other materials that use the railroads was not taken into account, causing a marked fall in the railroads' accumulation of transportation income, so that the increased economic gains after the large-scale responsibility system was put into effect were almost all consumed.

From many men of insight to the broad masses of people, voices demanding the acceleration of railroad building rise without cessation. This is because everyone can understand this plain truth: if railroad building continues to stagnate, the magnificent goals of state construction and social development by the year 2000 will, because of the serious restriction of railroads, suffer a setback! Therefore, it really is the "critical moment" to decide and take action on how to help the railroads get out of their near-term plight; how, according to the principles of giving priority to the development of strategic industries, to insure and achieve the Eighth and Ninth 5-Year plans!

Xinxiang-Zhengzhou Freeway Open to Traffic

HK0812005789 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 1 Dec 89

[Recorded report: "Construction of the Xinxiang-Zhengzhou High-Grade Freeway, a Section of National Highway No 107, Has Been Completed"]

[Excerpts] The construction of the Xinxiang-Zhengzhou high-grade freeway, a section of National Highway No 107, has been completed. Yesterday afternoon, a ceremony was held on the (Jin-Yuan) Overpass to inaugurate the freeway. More than 1,000 people were present at the inaugural ceremony, including leading comrades from the Ministry of Communications, party, government, and army leaders of Henan Province, Zhengzhou city and Xinxiang city, and some road builders.

The inaugural ceremony was presided over by Hu Xiaoyun, deputy secretary of the provincial party committee and vice governor. Zeng Jincheng, director of the provincial communications department, first briefed the participants on the construction of the freeway. He said: The Xinxiang-Zhengzhou high-grade freeway of National Highway No. 107 is one of the key construction projects covered by the Seventh 5-Year Plan. The full length of this freeway, designed by the provincial communications planning, survey, and design institute, is

85.9 km. The width of the road base is between 23 and 26.5 meters. The designed speed range is between 80 and 100 kilometers. The designed lifetime of the freeway is 30 years. And the designed daily traffic volume is between 10,000 to 25,000 vehicles. In the past, it took about 2 hours by car to travel from Zhengzhou to Xinxiang. Now, with this freeway open to traffic, it takes only about 50 minutes. [passage omitted]

On behalf of the Ministry of Communications, the Henan Provincial party committee, the provincial advisory commission, the provincial people's congress, the provincial government, the Chinese People's Political Consultative Conference provincial committee, the provincial military district, and all the Henan people, Minister of Communications Qian Yongchang and deputy secretary of the provincial party committee and Governor Cheng Weigao extended their warmest congratulations. They sent cordial regards to all the road builders, cadres, and engineering and technical personnel who had played a part in the construction of the freeway project. They expressed sincere thanks to all departments concerned, people from all walks of life, and the cadres and peasants of all the rural areas along the freeway who had supported the construction of the national highway.

Minister Qian Yongchang said:

[Begin recording] This freeway is the first high-grade freeway in Henan Province, opening a new page in the history of highway construction in this province. This is one of the major achievements since the introduction of the overall contracting system for highway construction and maintenance, and it will play an important role in speeding up China's economic development and in promoting the relations between China and foreign countries. [end recording] [passage omitted]

Finally, Minister of Communications Qian Yongchang, Governor Cheng Weigao, and model road builder (Wang Xuzeng) cut the ribbon to inaugurate the Xinxiang-Zhengzhou section of National Highway No 107. Thus Henan Province has its first high-grade freeway open to traffic.

Lianyungang-Guangzhou Air Service Route Opens

OH0912021589 Beijing XINHUA Domestic Service in Chinese 1632 GMT 4 Dec 89

[By correspondent Wang Xunian]

[Text] Nanjing, 4 Dec 9 (XINHUA)—A medium-sized passenger plane took off this morning from the Lianyungang Airport, establishing an air bridge linking northern Jiangsu, southern Shandong, and Guangzhou.

Since the Lianyungang Civil Airport was briefly put into operation in March 1985, it has opened air service to Beijing, Shanghai, and other localities. In the last two years, the state and local authorities have invested more than 20 million yuan for the second-phase revamping of

the airport, providing it with the capability for take off and landings of medium-sized passenger planes.

Hainan-Hong Kong Air Cargo Route Opens

OW091211189 Beijing XINHUA in English
1032 GMT 9 Dec 89

[Text] Haikou, December 9 (XINHUA)—A Hainan-Hong Kong air cargo service was opened today to meet the needs of fast development in foreign trade and economic relations.

The service takes only 24 hours to transport cargo from Hainan Province to Hong Kong. Hitherto, Hainan has had to rely on Guangzhou City to transfer export cargoes by air.

Among the exports of Hainan, the southernmost province of China, are many fresh goods, such as fish and shrimps, which demand fast transport.

Limited Access Highway To Be Built in Guizhou Province

OW0912055389 Beijing XINHUA in English
0224 GMT 9 Dec 89

[Text] Guiyang, December 9 (XINHUA)—A top-grade limited access highway will be completed next year in southwest China's Guizhou Province.

It will be the first highway of its kind in the mountainous province.

The 141.7-km highway will link Guiyang, the provincial capital, with the Huangguoshu Waterfall southwest of Guiyang.

Some sections of the highway have already opened to traffic and the rest of the highway is expected to open next year. After the highway is completed, it will take only an hour to travel by car from Guiyang to the scenic spot.

There are very few limited access highways. On most highways vehicles have to share the road with pedestrians, bicycles, and animal-drawn carts. The mix of traffic creates jams and causes accidents.

Harbor in Jiangsu Begins Constructing New Berths

OW1312020689 Beijing XINHUA in English
1603 GMT 12 Dec 89

[Text] Nanjing, December 12 (XINHUA)—The second-phase construction of the Zhenjiang Dagang Harbor started today in southeast China's Jiangsu Province.

A local official said the government will spend 200 million yuan (about \$50 million) to build four deep-water berths of 25,000 dwt and two of 5,000 dwt and 22,700 sq. meters of warehouses.

Zhenjiang Harbor is the third biggest port along the Yangtze River after Nanjing and Wuhan Harbors.

After the new berths are built, the handling capacity of the harbor will double to top five million tons.

Shanghai Imports FRG Container Ship

OW1212221889 Beijing XINHUA in English
1831 GMT 12 Dec 89

[Text] Shanghai, December 12 (XINHUA)—A third [word indistinct] container ship, the [word indistinct], arrived in Shanghai Harbor on Sunday. It was imported by the Shanghai Ocean Shipping Company.

This [word indistinct] vessel, built by the [words indistinct] shipyard of Federal Germany, is 236 meters long and can accommodate 2761 international standard containers.

The "Minhe" and the "Taihe," which the company imported in September, are sailing mainly between Hong Kong, Shanghai, Tianjin New Harbor, Japan and the United States.

Li Keli, manager of the company, said the company has spent about \$270 million worth of foreign exchange on building five container ships of the same type as the "Minhe."

Now, the company, one of the ten largest container-ship companies in the world, has 48 roll-on, roll-off ships and container ships. It has successively opened 31 services for regular container-ship sailings to North America, Australia, New Zealand, Japan, Europe, Southeast Asia, Hong Kong and other countries and regions.

Railways Meet Transportation Target

OW1512011289 Beijing XINHUA in English
1632 GMT 14 Dec 89

[Text] Beijing, December 14 (XINHUA)—The country's railways had delivered 580 million tons of coal as of yesterday, fulfilling the year's target 18 days ahead of schedule.

The latest statistics of the Ministry of Railways show that as of yesterday the country's railways had delivered 15 million tons more coal than last year. It is estimated the railways will deliver 609 million tons of coal this year, an increase of seven percent over last year.

The successful transportation of coal has helped to alleviate the coal shortage. In the latter part of the year, the railway has delivered 100 million tons of coal to the northeast, north, east, central China and Shandong power networks.

So far the five power networks have more than eight million tons of coal in storage, ensuring the supply of coal for electric power.

Highway From Jiangsu Capital to Shanghai Approved

OW1512103589 Beijing XINHUA in English
0904 GMT 15 Dec 89

[Text] Nanjing, December 15 (XINHUA)—Experts in highway construction say that when an express highway from Nanjing, capital of Jiangsu Province, to Shanghai is completed, it will be a faster way to travel than railway or shipping route.

The experts, who met here to approve construction of the highway, said a truck will need only three hours to reach Shanghai from Nanjing on the 368-kilometer route. That is seven hours less than in the past and one hour less than by express train.

The highway will help to relieve the transport pressure in the Shanghai-Nanjing economic belt, which houses economically developed cities with dense population and congested traffic.

The highway, which will cost 4 billion yuan (about \$1.08 billion), will pass through Suzhou, Wuxi, Changzhou and Zhenjiang cities in Jiangsu Province. It will take 60,000 motor vehicles a day travelling at 120 kilometers an hour.

Direct Guangzhou-Xiangfan Air Route Opens

OW1512181289 Beijing XINHUA in English
1625 GMT 15 Dec 89

[Text] Guangzhou, December 15 (XINHUA)—A direct air route was started Thursday between Guangzhou, capital of south China's Guangdong Province and Xiangfan, a city of central China's Hubei Province.

The weekly flight takes one hour and 40 minutes between the two destinations.

There are now 23 airports built in the six provinces of Guangdong, Guangxi, Hunan, Hubei, Henan and Hainan in south and central China, which are managed by the Guangzhou Administration of China Civil Aviation Administration.

Tianjin Makes Progress in Harbor Construction

OW1612053989 Beijing XINHUA in English
0155 GMT 16 Dec 89

[Text] Tianjin, December 16 (XINHUA)—The principle part of a project to build five 10,000-dwt deepwater berths on the south side of Dongtu pier in Tianjin has been completed.

Thirteen 10,000-dwt deepwater berths will eventually be built. The world bank has provided 200 million U.S. Dollars and 500 million yuan for the project.

The handling capacity of Tianjin Harbor will increase to 2.5 million tons of cargo a year when the five completed deepwater berths go into operation.

The other eight berths are expected to be completed by 1992. At that time the annual handling capacity of Tianjin will be 4.48 million tons.

Road Construction Increases in Heilongjiang

SK1912014389 Harbin Heilongjiang Provincial Service in Mandarin 2200 GMT 16 Dec 89

[Summary] This year, the province has witnessed a better situation in local road construction than the previous year. According to statistics, the province as a whole reconstructed roads totaling 18,189 km. Through road reconstruction, road transportation mileage increased by 3,876 km. Some 164 bridges were rebuilt, and 3,788 km of roads were upgraded. A total of 449 villages have become accessible to cars. So far, about 99 percent of townships, and 96.7 percent of villages throughout the province have become accessible to cars.

Four New Berths Operational at Yantai Port

OW1812180889 Beijing XINHUA in English
1614 GMT 18 Dec 89

[Text] Yantai, December 18 (XINHUA)—Four new 10,000-dwt berths were put into operation today in Yantai in eastern China's Shandong Province, adding an annual handling capacity of 1.8 million tons to the coastal open city.

The berths, which include one 16,000-dwt ore dock, one 10,000-dwt bulk cargo berth and two 25,000-dwt timber berths, are part of the expansion program of Yantai port, one of the major ports in China. A state priority in the Seventh 5-Year Plan, the expansion program plans call for building six deepwater berths between 1986 and 1990, with an investment totalling 400 million yuan. The whole project expects to add an annual throughput capacity of 3.9 million tons to the port.

Construction of the project started in 1983.

First High-Speed Catamaran Passes State Test

OW1812051489 Beijing XINHUA in English
0213 GMT 18 Dec 89

[Text] Dalian, December 18 (XINHUA)—The first high-speed catamaran made in China passed state technical assessment in the port city of Dalian recently.

The vessel, 20.85 meters long and eight meters wide, was designed and produced by the Dalian Shipyard after a 10-month study of data on catamaran production in other countries.

Compared with ordinary ships, the catamaran is able to carry more passengers and travel faster, yet is more stable and can cope with all difficult marine conditions.

Development of the catamaran will save China from importing similar vessels.

Guangdong Speeds Up Transportation Network Construction

OW2212180889 Beijing XINHUA in English
1524 GMT 22 Dec 89

[Text] Guangzhou, December 22 (XINHUA)—Fourteen of the 35 key construction programs of Guangdong Province this year were communications and transportation projects.

These programs include the construction of railways, highways, bridges and the expansion and improvement of old harbors and wharfs.

Investment so far is 500 million yuan (about \$135 million).

Since 1979, 53,300 kilometers of highways have opened to traffic and 1,100 highway bridges have been built.

Last year, with the completion of eight 1,000-meter highway bridges, the province's ten highways connecting the national transportation network were opened to traffic without ferries.

With the completion of the Hengyang-Guangzhou multiple-track railway, capacity increased to 30 million tons. The original single-track railway had a capacity of 11 million tons.

The navigation on inland rivers also developed rapidly in the province.

Since 1980, a group of well-equipped inland river harbors, including Sanpu, Jiangmen, Taiping, Zhongshan, Lianhuashan, Rongqi, Shanwei and Guanghai, has been built, increasing handling capacity by 15 million tons.

Twenty-eight direct navigation lines for passengers from Guangdong Province to Hong Kong and Macao have also been opened.

The province has four civil airports including Guangzhou, Zhanjiang, Shantou and Meixian Airports, Zhuhai Helicopter Airport and service centers.

Direct air routes from Guangzhou to 40 inland cities, Hong Kong, Bangkok, Manila, Sidney and Singapore have opened.

Huan He Highway Bridge Completed

OW2012054789 Beijing XINHUA in English
1519 GMT 19 Dec 89

[Text] Hefei, December 19 (XINHUA)—A highway bridge over the Huai He was completed today in Fengtai County in central China's Anhui Province.

It is the fifth highway bridge over the river, one of the seven largest rivers in China.

The 15-span bridge is expected to open to traffic in the first half of next year.

The bridge will speed up coal production and transportation in this coal-mining region.

AGRICULTURE

Sugar Shortage Affects Production

900H0223A Beijing XIAOFEI SHIBAO in Chinese
1 Nov 89 p 2

[Article by Shang Ce (0794 3261): "Demand For Sugar in Some Areas, Social Demand Increases; Residents Sugar Rations Assured, Relative Decline in Supply, Fairly Large Shortfall in Sugar Needed For Processing Industries"]

[Text] A forecast based on a survey of 11 units including Guiping County in Guangxi Province, Yuhang County in Zhejiang Province, Xinzhou County in Hubei Province, and Pinglu County in Shanxi Province, the Huzhou County Citizens Trade Bureau in Qinghai Province, the Second Commercial Bureau in Anshan City, the commercial bureaus in Kunming City in Yunnan Province, in Quanzhou City in Fujian Province, and in Yunxian County in Hubei Province, the Non-Staple Food Company in Nanyang Prefecture, Henan Province, and the Sugar Industry, Tobacco, and Wine Company in the Nanshi District of Shanghai shows a market trend in which supply will not meet demand for sugar during 1989 and 1990. Ten of the units (not including Kunming City) predicted that demand for sugar during 1990 will reach 156,000 tons, up 4.56 percent from 1989. Retail sales of sugar in 1990 will be 114,600 tons, up 3 percent from 1989. The following shows the production and marketing situation:

I. Slow Decline in Production Area Output

Quanzhou City in Fujian Province produced 35,000 tons of sugar during the 1988-1989 crushing season, nearly 20,000 tons less than during the previous crushing season for a 36 percent decline. The sugarcane growing area for the 1989-1990 crushing season was 101,100 mu, 17,600 mu less than during the previous year. Forecasts call for an output of approximately 31,000 tons of sugar during the 1989-1990 crushing year in the continuation of a more than 10 percent fall in production from the previous crushing season. Guiping County is one of Guangxi Province's sugar production bases. During the 1988-1989 crushing season, it produced 68,100 tons of sugar, 14.96 percent more than during the previous year. Forecasts call for a 1989-1990 crushing season output at the level of the previous year but below the normal year harvest.

II. Increase in Social Demand; Decline or Flatness in Supply

In the 10 cities and counties, demand during 1989 and 1989 increased 8.3 and 4.5 percent respectively, while sales declined slightly in one year and rose slightly in the other. In Quanzhou City, 1989 demand was for 51,000 tons while sales were forecast at 36,400 tons. The

amount of sugar provided in plan for residents' consumption and use in industry for the whole year was 22 percent less than in the previous year. In Yuhang County, Zhejiang Province, social demand for sugar during 1989 was for 11,000 tons, and forecasts call for the sale of 7,560 tons for the whole year, 19.5 percent less than in the previous year. Because of a decline in sources of supply in Huzhu County in Qinghai Province, sugar sales for the period January through May 1989 came to 144.5 tons for a 40.7 percent decline from the 242 tons of the same period in 1988. On the basis of current plans for distribution, an approximately 20 percent reduction in sugar sales during 1989 and 1990 is forecast. Provincial distribution plans call for the sale of 11,500 tons, or 1.2 kgs per capita in Nanyang Prefecture, Henan Province during 1989. This is only enough to satisfy 28.75 percent of the 40,000 ton demand. In Yunxian County in Hubei Province, the gap between supply and demand is rather large. Forecasts call for a demand of 2,140 tons in 1989, but sales of only 1,337 tons, a shortfall of 803 tons or 37.5 percent of social demand.

III. Residents' Sugar Rations Assured; Increased Processing Industry Demand for Sugar

With the institution of rationing of sugar for residents, and the adoption of measures to "conserve, control and halt" the use of sugar in production, the supply of residents' daily needs for sugar can be largely assured, and in some place, residents' sugar consumption has even increased. In Yunxian County in Hubei Province, residents' sugar consumption has increased over the years, and may reach 2.7 kgs per capita in 1989, up 17.4 percent from the previous year. For city and town residents, per capita consumption may reach 7.8 kgs in 1989, up 8.3 percent from the previous year. Residents of the Nanshi District in Shanghai are supplied 0.5 kgs per month against ration coupons. Following the setting of a uniform retail price for sugar in June 1989, the supply has stabilized, and the rate of removal of ration coupons from circulation stands at approximately 80 percent. Demand for sugar used for processing has increased everywhere. In Yuhang County, Zhejiang Province, 3,652 tons were allocated to meet the minimum needs of the county's processing industries for sugar in 1989, but only 2,735 tons were available under plan for the whole year. After allocating 2,000 tons for residents' sugar rations, only 375 tons, or 10.27 percent of the amount that industry needed, remained. The remainder had to be made up through the purchase of sugar at negotiated prices. However, because of the shortage of supply of sugar, it was very difficult to satisfy needs. The food industry in Pinglu County, Shanxi Province grew by leaps and bounds during the past several years, the number of food processing plants increasing from 275 in 1988 to 330 in 1989. Demand for sugar used in processing increased fairly rapidly, demand in 1989 amounting to 1,098 tons for a 57.3 percent increase over the previous year. Sugar used in production accounted for 68.9 percent of all sugar used in the county. In Yunxian County, Hubei Province, the

output value of the food industry, including canned goods, pastries, candy, and various kinds of beverages, increased from 1 million to 7 million yuan in 1989 requiring 400 tons of sugar, or 63 percent more than in 1988. In 1990, 500 tons, or 25 percent more sugar will be required for processing industries. Because of the shortage of sugar for use in processing industries, some pastry, cold beverage, and candy production plants in Anshan City are actively trying to develop new products, improving recipes, reducing the percentage of sugar used, and offering new and different products.

Plans Outlined for Building Commodity, Export Bases

900H0223B Beijing JINGJI CANKAO in Chinese
4 Dec 89 p 2

[Article: "State Agricultural Investment Company Proposed Investment Emphasis for 1990, Plans To Build a Number of Commodity Bases and Export Bases"]

[Text] It has been learned from the authorities concerned that the emphasis of State Agricultural Investment Company proposed investment during 1990 is envisioned as follows: Further building of basic operational facilities for the farming, animal husbandry, and fishing industries, the emphasis to be on arranging for the construction of a number of nonstaple food production bases for large cities and major industrial and mining areas, agricultural product export bases, and light and textile industry raw materials bases.

The State Agricultural Investment Company is one of six state investment companies whose establishment the State Council ratified in 1988. The investment emphasis that this investment company has set for 1990 focuses primarily on seven fields including the farming industry, the livestock industry, the aquatic products industry, agricultural reclamation, the livestock feed industry, and the building of commodity and export bases. In the farming industry, plans call primarily for the building of seed processing and storage facilities at superior variety grain and major cash crop bases. Emphasis is to be placed on support for the building of superior variety paddy and hybrid corn bases responsible for state shipping quotas, while simultaneously arranging for the building of "920" growth hormone projects that the Ministry of Agriculture has prescribed to serve agricultural production over wide areas. In the aquatic products industry, the focus is on three areas. First is basic facilities to provide superior breeds, food, fish vaccines, and cold storage facilities to maintain product freshness. Second is the development of large and medium size aquatic surfaces, continuing to run pilot projects at water surfaces having requisite conditions in the Chang Jiang basin. Third is the deep sea fishing industry, and the breeding of aquatic products resources.

A fairly large number of the key projects that the State Agricultural Investment Company has set for 1990 are commodity bases and export bases. The investment is to be used in three ways. One is for continued support to

the building of commodity bases for well-known, special, and premium commodities, and the selection of key products for the concentrated serialization of their production, processing, storage, and sale. Second is emphasis on supporting the building of nonstaple food production bases for poultry, eggs, dairy products, and fish for large cities and industrial and mining areas where the foundation for such products is relatively weak, and supplies are fairly short. Third is light and textile industry raw materials bases, notably bases for the production of fine and semifine wool sheep and goats. In the field of exports, the emphasis is on planning the building of bases for seven kinds of products, including mulberry silkworm production and processing bases in south China, and tussah silkworm production and processing bases in north China; for rare Chinese medicinal herbs in short market supply, and tonics for which export prospects are rather good, and for ocean delicacies and premium ocean and fresh water products. Emphasis is to be placed on the building of ocean delicacies bases on the Liaodong Peninsula and the Shandong promontory, and premium freshwater fish export bases at other key areas; on the building of livestock product export bases, emphasis going to the building of cashmere goat bases in Liaoning and Nei Mongol, and to goat hide bases and central plains beef export bases in Henan, Anhui, and Shaanxi provinces; to the building of premium tea processing export bases, as well as semitropical crop export bases in Hainan and Yunnan provinces; and to the building of processing and export bases for mountain delicacies and edible wild mountain herbs in north-eastern China.

Policy Issues in Cotton Development

900H0078A Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY] in
Chinese No 9, 23 Sep 89 pp 53-59

[Article by Li Zuoyan (2621 0155 11484): "Policy Issues in Cotton Development"]

[Text] With its long cotton-growing history, rich cotton-growing experience, and a wide expanse of land suitable for cotton cultivation, China is currently the largest cotton producer in the world. Cotton is a key raw material for China's textile and light industries (including the pharmaceutical industry), a basic means of livelihood for both urban and rural residents, and a major foreign exchange-earning export. It occupies a crucial position in the national economy.

After New China was founded, the party and government worked out a series of policies to encourage, reward, and economically foster the development of cotton production. In 1951, the government issued advance purchase funds to help cotton growers increase output. In 1954 the government classified cotton as a class I agricultural product and monopolized its purchase. In 1955, the government adopted a policy whereby growers who sold cotton to the state were rewarded with the sale of cotton cloth and grain. In 1955,

growers who sold unginned cotton were given cotton cakes in return. In addition, there were other policies to promote cotton production. Under one such policy, growers who sold cotton to the state were rewarded with fertilizers and allowed to keep some cotton. Moreover, cotton procurement prices were adjusted several times. Together these policies had led to substantial growth in cotton production. In 1978, cotton-growing areas, gross cotton output, and average per unit area yield were 73 million mu, 43.34 million dan, and 29.5 kilograms, respectively, up from 56,789,000 mu, 13,839,000 dan, and 12 kilograms, respectively, in 1950. The quality of cotton also improved markedly.

As we all know, the fundamental turning-point in agricultural production occurred in 1979. Since then, there have been six consecutive bumper harvests in cotton production. In 1982, cotton output essentially equaled sales. In 1983, China achieved self-sufficiency and even a small surplus in cotton production and the government abolished the 28-year-old cotton ration system, bringing to an end its long years of dependency on imported cotton. It was then that China began to make its way into the international market. Formerly a cotton importer, China instantly became a major exporter. Cotton exports in 1983 amounted to 1,716,000 dan, increasing every subsequent year. This was a historic turnaround. In 1984, cotton-growing areas broke through the 100 million mu mark, and output reached 125.16 million dan, a historic high, a dozen-fold increase over the amount in 1950, a twofold increase over 1978, and equivalent to Soviet and American output combined. China's annual cotton yarn and cotton textiles output doubled that of the Soviet Union and was three times that of the U.S., thus again moving the heart of cotton production and the textile industry from the West to the East. In 1984, China's net raw cotton exports totalled 3,926,000 dan, with 112 million dan in stock, equivalent to the nation's cotton requirements for a year and a half at the time. For a while it seemed that there was more cotton than we could harvest, stock, or sell.

As cotton production contributes significantly to the state, the living standards of cotton growers too have improved notably. Many a peasant family has amassed a small fortune by growing cotton, "building houses, getting married, purchasing upscale items, and wearing nice clothes." Since peasants have benefited from cotton cultivation, the saying "love the country, grow more cotton" circulated far and wide in the countryside.

Why was cotton cultivation able to develop by leaps and bounds in just a few short years? A major reason is that the government drew up policies favorable to its development. To promote cotton cultivation, the government raised cotton procurement prices three times between 1978 and 1980 by 8.9 percent, 15.2 percent, and 10 percent. In 1979, the government decided to add 5 percent to the procurement price of cotton in the northern cotton-growing areas and introduced a nationwide program to reward the sale of cotton to the state over and above the procurement arrived at by taking the average of the procurements in the three years between

1976 and 1978 (excluding the amount of cotton procurement). Procurement in excess of the basic volume would be offered an extra 30 percent in procurement price. Alternatively whoever sold to the government a jin of ginned cotton over and above the basic procurement would be rewarded with a jin of grain. Units like collective enterprises, schools, and commune members had no obligation to the state beyond the basic procurement volume, but when they sold to the state the cotton grown on their private plots, the state would raise their prices as well. Between 1979 and 1984, increases in cotton procurement prices alone enriched cotton growers by 11.5 billion yuan. Beginning in 1979, the government set aside one million tons of chemical fertilizers each year for the cultivation of grain by cotton growers and sold 480,000 tons of grain to cotton growers at low prices. In 1981, the policy of raising prices on above-quota cotton remained in force. In addition, the government linked cotton to grain. The cotton grower who sold to the state one jin of ginned cotton above the quota will be rewarded with two jin of grain. Excluded was cotton grown on private plots. Meanwhile, the government continued to reward cotton growers by selling them chemical fertilizers and issuing advance procurement funds. Furthermore, as the party's various economic policies were implemented in the countryside, the localities introduced a variety of family contract responsibility systems one after another, thereby inspiring the initiative of cotton growers and raising land yield. In 1984, China produced an average of 60 kilograms of ginned cotton per mu on the average, up from 29.5 kilograms in 1978. In 1983 and 1984, limits were imposed on the output of the cotton spinning industry two years in a row, which to a certain extent contributed to the excess of output over sales in 1984, boosting state reserves by 76 million dan in two years.

Cotton output reached a historic high in 1984. When the 1985 crop reached the market, there were still over 88 million dan of reserves in the government warehouses, about 100 percent more than normal. Owing to a number of objective reasons, however, cotton production has been restricted since 1985 and procurement has decreased. Reserves began to drop. In 1985 cotton-growing areas, output, and procurement fell to 77.11 million mu, 82.94 million dan, and 70 million dan, respectively, and declined further to 64,592,000 mu, 70.80 million dan, and 62 million dan, respectively, in 1986. In late August in 1986, government cotton reserves also fell to 79 million dan and cotton cloth reserves dipped to 30 billion meters, less than a year's needs, from 60 billion meters a few years ago. The supply of cotton yarn was even tighter. In 1987, cotton-growing areas rose by 8 million mu, and both output and procurement rebounded to 84.90 million dan and 78 million dan, respectively. But by late August the same year, government cotton reserves stood at only 36 million dan. In 1988, cotton output declined by 3 million dan and procurement was only 70 million dan. Meanwhile, as living standards rose, the textile industry developed, and exports increased, cotton consumption has been soaring.

Each year over 1 billion dan of cotton is required, including exports. Since we have been dipping into the reserves three years in a row, cotton reserves have been declining steadily even as industrial and commercial reserves dropped to their lowest level. Even if we tighten our belts in 1988 (from 1 September 1988 to late August 1989), there will still be a shortfall of 20 million dan. Moreover, reports from the localities suggest that cotton production in 1989 may slip again. This is a very dangerous signal. Why then has cotton production fallen into a prolonged slump? As far as the procurement and sale policy is concerned, I think there are at least three reasons:

1) After 1983, the supply of cotton has outpaced its demand. There was also the need to adjust the rural industrial structure. For these reasons, the government adopted a policy of planned adjustment and reduction, limiting production, on the one hand, and expanding cotton sales and exports, on the other. Since 1984, the five percent increase in procurement price in the northern cotton-growing areas has been scrapped. In the past, for every jin of cotton above quota he sold to the state, the cotton grower in the north was awarded with two jin of grain. Since 1984, his reward has been reduced to a jin and a half. Cotton procurement prices were cut three years in a row. The government has also moved to open up the buying and selling of substandard cotton. In 1985, contract procurement was introduced. Subsequently the policy of rewarding cotton growers with grain and chemical fertilizers was abolished. In 1986, the policy of paying extra for cotton outside the contract was abolished (only to be reinstated in 1987.) Cotton procurement prices used to be abnormally high in some localities and abnormally low in others. To solve the problem, the government in 1984 replaced the "base number method" (that is, paying extra for cotton above the base number) with the "proportional method" (paying extra based on the procurement proportion.)

It should be seen that it is necessary for the government to take action to limit and even reduce cotton cultivation for a specified period of time. But because the matter was not considered at length, some of its concrete measures and practices either went too far or were too hasty. Consequently, cotton production failed to rebound in the next three years. In early 1985, it was widely said that "cotton reserves will not be exhausted even if the entire nation stops growing cotton for three years." That was clearly an exaggeration. In 1984 the "base number method" was replaced by the "proportional method" as a way of cutting cotton procurement prices. Subsequently the average procurement price for standard grade cotton fell to 174.92 yuan from 182.27 yuan per dan. In the southern cotton-growing areas, the "regular 4-6 price" (60 percent of the original state-monopoly price, 40 percent of the original extra-procurement price) fell from 168.45 yuan to 163.3 yuan. In the northern cotton-growing areas, the "reverse 2-8 price" (20 percent of the original state-monopoly price, 80 percent of the original extra-procurement price) fell

from 187.86 yuan to 180.79 yuan. In 1985, the "reverse 2-8 price," now replaced by the "reverse 3-7 price," again fell to 176.42 yuan. The average price also dropped to 171.03 yuan. In 1986, the "reverse 3-7 price," replaced once again by the "reverse 4-6 price," fell to 172.04 yuan. (That same year substandard cotton was procured at the proportional price, which replaced the monopolistic procurement price. As a result, the peasants were able to increase their incomes by 8,955,900 yuan.) Only in 1987 was the cotton procurement price raised marginally. The "reverse 3-7 price"—176.42 yuan per dan on the average—was applied uniformly all over the nation. Cottonseed was procured at the above-quota procurement price, instead of the "regular 4-6 proportional price," which means that it was procured at 15 yuan instead of 12 yuan, thus increasing peasant earnings by 53,831,700 yuan. Also in 1987, the government reinstated the policy of rewarding the cotton grower by selling him 70 jin of chemical fertilizers at low prices for every dan of cotton procured. All this coupled with more normal weather led to a rebound in cotton output. At the same time, we should see that even after adjustments, cotton prices are still three percentage points lower than before they were reduced. Also, the implementation of the newly resumed policy of rewarding cotton growers with chemical fertilizers has been much delayed. Besides, some cotton fields have been switched over to other crops. Cotton growers are also worried about the losses they may suffer from government policy limiting output. For all these reasons, peasants still feel unenthusiastic about growing cotton. This is another reason why cotton output continued to decline in 1988. Because of declining prices year after year and a series of government measures that adjust its prices downward, the peasants have become less and less motivated to grow cotton.

As for the problems caused by an expansion in cotton sales and exports, they will be discussed separately.

2) Even as cotton procurement prices and its preferential policies were reduced, grain procurement prices have been going up and its procurement base cut. In 1986, for instance, the basic procurement volume of grain was cut from 61.5 billion kilograms to 50 billion kilograms accompanied by an increase in the proportion of grain under negotiated procurement. In the case of wheat and dried yam, contract procurement was abolished and their prices were allowed to float according to the market. In contrast, the bulk of cotton can only be sold to the state. Besides, preferential policies for grain have been increased. For instance, contract procurement was pegged to chemical fertilizers, diesel oil, and advance procurement funds. As a result, the relative advantage of growing cotton quickly diminished. According to calculations by the price bureau of Shandong Province, between 1985 and 1987, net profit per mu increased on the average by 5.6, 19.37, 6.78, and 12.51 percent each year for wheat, corn, rice, and peanuts, respectively. The corresponding figure for cotton was a mere 0.38 percent. Compared to many agricultural byproducts whose prices

have been deregulated, the benefits of cotton-growing pale into insignificance. To increase incomes, 60,000 mu of cotton fields in Gucheng County, Hebei Province, were converted into wheat fields in 1988.

3) With the prices of agricultural capital goods skyrocketing in recent years, the costs of cotton production have also risen spectacularly. According to statistics, the comprehensive price of carbon ammonium, urea, agricultural cover, and pesticide "1605" were 360 yuan, 1200 yuan, 10,000 yuan, and 30,000 yuan per ton, respectively, in Hebei Province in 1988. For the province as a whole, the comprehensive price of capital goods rose 24 percent on the average. In Kaifeng, Henan Province, a cotton grower had to sell only 0.85 ton of cotton to purchase one ton of ground cover in 1983. Now he has to sell two tons. The use of agricultural ground cover in cotton cultivation costs 50 yuan per mu. The broad increase in the prices of capital goods has dealt a heavy blow to the interests of cotton growers. Studies show that the net profit of cotton fields in Shandong Province averaged 60 yuan per mu in 1988, a drop of more than 100 yuan compared to the year before. The increase in the prices of capital goods alone cut the net profit of a mu of cotton fields by over 50 yuan. Add natural disasters, which cut into production, and the decline in quality, and the growers find themselves unable to make ends meet. They lost money last year.

Particularly worrisome is that as the prices of capital goods were being jacked up wildly, the market was flooded with some bogus and shoddy pesticides. In addition, the prices of a number of daily industrial goods have also been climbing endlessly. Take plain white cloth in Kaifeng, Henan Province, and Gucheng County, Hebei Province, for example. Plain white cloth retailed for 0.28 yuan per foot on the market in 1986, 0.4 yuan in 1987, and an exorbitant 0.66 yuan today. As cotton growers say graphically, "The prices of products serving the needs of agriculture have been soaring and those of daily industrial goods have been jumping, but the prices of agricultural products have only been crawling upward." Hence their endless complaints about hardships.

Cotton growers have encountered difficulties in selling cotton and been forced to sell it at lower grades and prices. Accompanying the policy-related reductions in cotton prices are difficulties in finding cotton buyers. Moreover, in early 1985 the government allowed textile enterprises to practice free selective procurement and, later that same year, introduced planned selective procurement. Under so-called selective procurement, an enterprise selects not only grade and the length of the staple, but, even more important, prices. Since cotton cannot be converted into other forms readily and is a one-use crop, not only has the gap between production and sales widened, to the detriment of the producing areas, but it is also a waste of human, material, and financial resources for the cotton grower who has to transport his cotton from place to place. Moreover, it has encouraged unhealthy trends in cotton procurement.

compounding the grower's difficulties in finding a buyer for his crop. According to a 1985 study in such provinces as Hebei, Shandong, Henan, Jiangsu, Hubei, and Zhejiang, the undergrading and underselling of cotton takes place every step of the way as it winds its way from the grower to commerce and from commerce to industry and even within commerce. The peasant suffers the most.

Selling cotton is so difficult that at some procurement points in Henan cotton growers line up for miles for a dozen days to half a month to dispose of their crop, despite wind and rain. To sell his cotton, a grower has to overcome seven barriers: taking a number, lining up, pre-acceptance inspection, entry, weighing, pouring out the cotton, and receiving payment. In Suizhou Shi, Hubei Province, an additional regulation provides that the grower could sell just one grade of cotton at any one time and that he could sell cotton only once a month. As a result, some peasants were still stuck with cotton from last year's harvest. And when he manages to sell it, grade inspectors would not even bother to touch the cotton but simply give it a good kick to decide its grade. "If the peasant is willing to sell, he leaves it there. If not, he takes it away." The cotton grower loses out at every turn: when the cotton is graded, when the gin turnout is measured, when sundry items are deducted, and when the cotton is weighed. After being exploited level after level, not much is left. In 1985, cotton growers in Shandong and Hebei earned 15 to 20 yuan less for every dan of cotton they sold. To earn a few extra cents, a cotton grower from Taikeng County, Henan Province, hauled a cart of cotton from home to other localities. Buyers tried to undergrade his cotton and offer him low prices. He had no choice but to come home, ending a painful trip almost 1,000 li long that took him to two prefectures and four counties. This was a crushing blow to the peasant both spiritually and economically.

Government sells chemical fertilizers and diesel oil at low prices to cotton growers who supply the government under contract procurement. The problem with this program is that, for one thing, the quantity of chemical fertilizers and diesel oil is too small, less than one-third of actual needs. Second, a cotton grower may have the quota but not the actual materials. The delivery of materials urgently needed may be much delayed. Sometimes the goods do not live up to their billing. According to surveys in Tianmenshi and other localities in Hubei Province, it takes 50 kilograms of nitrogenous fertilizers, 25 kilograms of phosphate fertilizers, 15 kilograms of potash fertilizers, 75 kilograms of cake fertilizers, and 2 cubic meters of farm manure to produce 50 kilograms of ginned cotton per mu. Right now, however, the state only offers 35 kilograms of standard fertilizers for every 1 dan, that is, 50 kilograms, of ginned cotton it procures. Since this is not sufficient for his needs, the cotton grower has no alternative but to buy fertilizers at negotiated prices. In 1987, the cotton procurement target in Henan was 560,000 tons. Accordingly the state should allocate a quota of 392,000 tons of chemical fertilizers. In fact only 200,000 tons were allocated, which means

that just 17.8 kilograms of chemical fertilizers were available for sale to the cotton grower for every dan of ginned cotton he sells to the state. Almost half the quota remained unfilled. To fill the gap, the departments concerned went begging all over and squeezed out an extra 80,000 tons, which enabled them to increase the reward sale to 25 kilograms for every dan of cotton. In the same year the corresponding figures in Shanghai, Shandong, and Henan were only 25 kilograms, 20 kilograms, and 18.4 kilograms, respectively. In sharp contrast, high-priced chemical fertilizers were everywhere. In 1988, the special purchase and marketing of means of livelihood was introduced, but a number of supply and marketing cooperatives hoarded chemical fertilizers and waited for the right price to sell. Many peasants say that they would rather not have the related materials than sell cotton to the state at depressed prices.

When a grower sells cotton to the state, some departments deduct from his earnings arbitrarily. Often he is not even paid in cash. Owing to a shortage of procurement funds and other reasons, "IOU's" were commonly issued for payments above 50 yuan by the departments concerned in provinces like Jiangsu, Henan, and Hubei in 1985. Some growers, strapped for cash and worried about deductions, would rather earn less by selling their crop to cotton peddlers. Instead of disappearing, the use of IOU's became more widespread in 1988. According to a study in Hebei, only 20 to 30 percent of all cotton transactions were paid for in cash in 1988.

In 1985, the grain for cotton policy was scrapped. Some localities continued their own effort to make grain available to cotton growers. Beginning in 1988 the central government introduced a policy whereby for every jin of cotton turned over to the state by a major cotton-producing province (primarily Hebei, Shandong, Henan, and Xinjiang) the government would reward it with the sale of one jin of grain or a subsidy to close the price difference (5 fen 8 li). However, cotton growers were still unhappy with their grain situation. To begin with, since 1985 the monopoly price of cotton growers' ration grain has been made to equal the procurement price, resulting in an increase in price. In Hubei Province, for instance, the supply price of barley was raised from 14.9 yuan to 22.95 yuan per dan, an increase of 9.05 yuan. Second, quantities were insufficient. Take for instance Nantong Shi in Jiangsu Province, a famous long-established cotton-producing area. Grain ration for cotton growers in that city was only about 150 kilograms of unprocessed food grain, the lowest in the province. In recent years, however, grain production in China has stagnated. The quantity of grain to be sold at negotiated prices has been reduced and costs of transport have also been going up endlessly. This has caused a shortage of rationed grain for cotton growers. Grain on the country fair, on the other hand, is exorbitantly priced. Since 1988, in particular, the prices of market grain have risen sharply; one jin of unginned cotton cannot buy one jin of barley. The masses have been complaining loudly about this, protesting that they must cut down on cotton cultivation

and grow grain instead so that they can fill their stomachs first. Third, even though the cotton-growing population has increased, supply grain has not (in Hubei Province). Fourth, after they quit growing cotton, some peasants still collect grain intended for cotton growers, taking up some of the grain ration quotas (Hubei Province.) Fifth, wrong varieties of grain. According to reports from Qidong County, Jiangsu Province, none of the 15,000 tons of grain set aside for cotton growers in 1988 was wheat or rice.

Frequent policy changes have made things difficult for peasants. Some county and prefectural cadres have said that frequent changes of policy had affected the relationship between the government and peasants, alienating the latter. In 1984 cotton growers reaped a bumper harvest and warehouses were bulging with cotton. Under these circumstances, the government relaxed control and even opened up the procurement and marketing of cotton, allowing diversified management and making local finance departments responsible for storing grain and paying interest on loans. Also, prices, subsidies, and various preferential policies were introduced. In recent years cotton has been selling briskly and supply has fallen short of demand, so the government revived its monopoly. As soon as there is money to be made, the government centralizes control in its own hands; but when the cotton business loses money, it decentralizes operations. A few years back there was much talk everywhere about the difficulty of selling cotton. In the last two years, however, the government called on growers to grow cotton. When they overproduce, they suffer; when they underproduce, they are penalized. The peasants simply do not know what to do. Because there are complaints everywhere and in view of the fact that other measures have not kept pace with the situation, some localities have not been collecting cotton. Gucheng County, Hebei Province, for instance, began collecting cotton on 3 September 1988, but not a single cotton receiving station took in a jin of cotton for five or six days.

Cotton sales and exports have been expanding too rapidly in recent years. In particular, small textile mills outside the plan have sprung up unchecked, widening the cotton supply-demand gap. In the early 1980's, cotton sales nationwide usually amounted to about 66 million dan. After 1984, both consumption and exports picked up steam. In 1985, sales climbed to 90.20 million dan. In 1986, domestic sales and exports together totalled 1 billion dan, including over 70 million dan of cotton for use in the textile industry alone, greatly exceeding the projected annual consumption of 50 million dan. Meanwhile, exports have also risen sharply, growing 5.42 percent in 1986 over 1985 and an additional 27.4 percent in 1987 over 1986. Particularly noteworthy is that in 1984 there was an overstocking of cotton and cotton growers had a hard time finding a buyer. Since cotton-growing areas had a minimal cotton-spinning capacity, cotton fields were reduced. (Consequently Shandong peasants saw a drop in per capita income of

about 100 yuan, in some cases as much as 150 yuan, the next year.) This prompted local governments to scramble for cotton spinning mills thoughtlessly. The upshot was a serious duplication of small and mid-sized mills outside the plan in localities which did not even produce cotton. By the end of 1988, there were 31 million spindles producing a total of 24.70 million pieces of cotton yarn, way above the 1987 figure of 26.03 million spindles and the projection in the Seventh 5-Year Plan. Of the 10 million spindles built in 1988, only 1.5 million were in the plan. Of the 5 million spindles completed and put into production in 1988, as many as 4.6 million were outside the plan. According to incomplete statistics, the number of small cotton mills either newly built or under construction has risen from 770 to over 1,200, consuming cotton from 11 million dan to over 20 million dan. Some of these cotton mills are run by township and town enterprises, some jointly operated by peasants pooling their funds, and some by other sectors. A majority of them are fitted with equipment discarded by large factories or substandard equipment produced by non-permanent factories. With their obsolete equipment and backward technology, many mills are high-consumption but turn out poor-quality products. Still they are supported by local governments thanks to the finance contract system. Many of them are in operation, inevitably competing with large state enterprises for raw materials. In addition, a number of township and town enterprises have recently built numerous cotton processing plants, which will compete with supply and marketing cooperatives for cotton. According to statistics, total national raw cotton requirements had risen sharply to 115 million dan by late 1988. Raw cotton requirements by both the textile industry and the foreign trade sector have greatly exceeded projections in the plan. Textile requirements alone amounted to 78 million dan, while the actual procurement that year did not meet the needs of spinning mills alone.

It needs to be pointed out that putting up cotton spinning plants blindly regardless of the raw materials situation not only further stimulates the overheated Chinese economy, but will also induce and touch off a nationwide scramble for resources. Already the vast number of extra-plan spinning factories at the county and township levels has caused some large state-run key enterprises of a high technical standard to operate at less than full capacity because of a shortage of raw materials. The prospects facing small enterprises have also begun to look rather grim. This has a highly negative impact on the quality of the nation's textile products and the industry's profitability.

The steady growth of cotton production is pivotal to the national economy and people's livelihood. How then can steady growth be achieved? In my opinion, there are the following approaches:

- 1) Adjusting the cotton procurement policy and encouraging peasants to grow more better-quality cotton holds the key to ending the stagnation and even decline of cotton production in the last several years in favor of

steady development. Toward that end the state adjusted the cotton procurement policy two times in a row last February. The new regulations provide that 25 yuan be added to the supply price of a dan of cotton irrespective of grade. Of the 25 yuan, five yuan would be used to widen the difference between the commercial sector's procurement and sale prices, while the remaining 20 yuan would be spent to reimburse the cotton-producing provinces for what they have spent to support production. Beginning with the 1989 crop, standard-grade ginned cotton would be paid 236.42 yuan per dan. (The cotton supply price and the price of cotton for civilian wadding use were to be adjusted correspondingly.) Other existing policies designed to encourage cotton production would remain unchanged. The localities may also take actions to solve the problem of the availability of ration grain, chemical fertilizers, and agricultural ground cover if they are capable of doing so. To unleash the initiative of local governments in tackling the cotton problem, the State Council has also decided to introduce a contract system for the inter-province movement of cotton. A total of seven provinces and autonomous regions in the nation produce 24 million dan of cotton for use by other areas. The portion in excess of the contract is to be disposed of by the province, while that in excess of contract procurement will be split three to seven between the central government and the localities. The amount of contracted cotton sent into a province is far from enough to satisfy needs, with spun yarn usually reaching just 70 percent of the target. As a result, the limited amount of cloth available must be used sparingly and frugally. These measures have been taken by the government to close the supply-demand gap on the macroeconomic level. They will certainly do much to ensure the success of cotton production and procurement this year.

2) Solve the problem of food and clothing using the price ratios between cotton and grains as the basic parameter. Reasonable price ratios would ensure coordinated development between cotton and grains and avoid the problem of attending to one and losing sight of the other. It should be pointed out that the price ratios between cotton and grains have become more reasonable after the cotton policy was adjusted, but there is no room for unrealistic optimism. Reports from many localities, particularly those in Shandong, Henan, Hubei, and Jiangsu show that adjusted procurement prices for 1986 are roughly at levels already achieved by peasants in 1988. It must be noted that the price ratio between cotton and wheat, namely 1:8, in effect for the past several years, is reasonable. Currently comprehensive grain prices in various localities are on the high side, that for wheat about 35 yuan. Comparatively speaking, cotton prices are not totally satisfactory. Certainly it is very difficult to straighten out cotton prices. For years the government has spent enormous material and financial resources to develop cotton production. Between 1979 and 1988, for instance, price increases for cotton cost the central treasury a total of more than 16 billion yuan. To foster cotton production, the government used 30 million tons of chemical fertilizers and over 39 billion jin of grain as

reward. At a time when the state is grossly short of funds and it is necessary to strictly hold down the price index, the rationalization of cotton prices cannot be achieved overnight. But when the time is right, it is imperative that the state take additional measures to mobilize the enthusiasm of cotton growers for production.

3) Perfect the contract procurement system and increase inputs of capital goods. On the basis of specialized purchase and marketing, commercial supply and marketing agencies should ensure the availability of agricultural capital goods in earnest and see that policies are carried out and production needs are met. Chemical fertilizers sold to peasants should be put in their hands without delay. The quota of chemical fertilizers should be adjusted properly if possible, perhaps one jin of cotton for one jin of chemical fertilizers. This year there are more supply sources of pesticides and agricultural ground cover than before. Localities should be careful to secure the supply sources of merchandise. They must also take actions to keep bogus or shoddy pesticides off the market. Although the supply sources of agricultural ground cover are quite adequate, it is no easy task to ensure its availability. (A total of 172,000 tons of agricultural ground cover are required by the nation's cotton fields.) To really increase the inputs of means of production, we should start at the fundamental—the linkage between cotton procurement and the supply of chemical fertilizers and pesticides. Accordingly we must continue to improve the contract procurement system so that it is pegged to reward materials and cottonseed (cottonseed oil, cottonseed cake, and cottonseed skin) on the basis of existing procurement volume and prices. That way the cotton contract becomes both economically responsible and legally effective.

4) Reform the circulation system and restore order to the market.

a) Reduce circulation linkages. One of the goals of the reform of the cotton circulation system is to gradually bring production, supply, and marketing under one roof. We should actively create the conditions for the achievement of this goal even now. As a transitional measure, the cotton consuming units may deal with the county cotton and hemp company directly, eliminating the intermediate link—the prefectural (municipal) Level 2 station.

b) Strengthen market management and prevent successive rounds of price increases. Market stability will lead to more openness, which will effectively overcome haphazardness and promote steady healthy development. Accordingly we must rectify the circulation of cotton to prevent irresponsible deals and unjustifiable price increases. At the same time we must strengthen the management of the market and prevent successive rounds of price increases, from means of production to ultimate products.

c) Establish standards correctly and set prices strictly in accordance with quality. Sample standards must be made public. Such standards should not be changed

depending on the kind of harvest. Scientific testing methods must be strengthened. In addition the following measures must be taken. First, reform the long-established self-inspection and self-acceptance method. Remove cotton grading personnel from procurement departments and put them under standards departments. Sever the economic link between grading personnel and procurement departments. Since 1986 various localities have been following the back-to-back secret inspection method of Jin County in Hebei Province. By separating grading from procurement, it has turned out to be an effective way to remove grading personnel from the pressure of "guanxi" and prevent and check the growth of unhealthy trends. Not only has it raised the accuracy of grading testing, winning the confidence of the peasants, but it has also made selling and delivery more convenient, improving the relations between cotton growers and cotton receiving stations. Thus the method has been widely praised by the cotton growers. It should be further popularized and gradually standardized. Second, auditing supervision should be tightened. During the cotton procurement season, the standards, prices, auditing, agricultural, and other pertinent agencies put together an inspection working group and randomly inspect the procurement situation constantly. When a problem is discovered, it should be handled strictly. When a procurement department is found to have made an unreasonable profit (five percent should be considered reasonable, anything above five percent unreasonable), the profit should be removed and the peasant offered compensation. The department concerned should also pay a fine to the national treasury.

d) Take vigorous measures to ensure fund availability. The procurement of agricultural byproducts is concentrated in the fourth quarter, precisely the time when funds are most tight. The shortage of cotton procurement funds in 1988, in addition, was related to the government's decision to adopt a tight money policy. Be that as it may, procurement funds should be made available on time. Otherwise, not only will the enthusiasm of cotton growers for production and delivery for sale be dampened, but even more important, it will affect the relationship between party and government, on the one hand, and cotton growers, on the other, damaging the state's reputation. The State Council has also stressed repeatedly that procurement funds for agricultural byproducts in government contract procurement must be assured. Localities must work hard to come up with the funds. The central government too may make special arrangements.

e) Control the unchecked growth of the demand for cotton and ensure the availability of cotton to satisfy the nation's various requirements. In order that cotton sales grow in tandem with production development, the government should balance cotton production with its consumption and exports, at the same time taking action to sort out and rectify the cotton spinning capacity completed or under construction thoughtlessly. Projects that should be suspended must be suspended; those that

should be discontinued must be discontinued. In addition, cotton exports should be limited. The CPC Central Committee and State Council have stressed time and again that when there is a shortage of a key commodity both at home and for export, we must give priority to domestic needs. Cotton exports, therefore, should be under strict planned restraint.

High Corn Prices Crimp Feed, Livestock Production

90OH0074A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 9, 15 Sep 89 pp 17-18

[Article by Li Ruiting (2621 3843 1656) and Liu Fangli (0491 2455 3769 0448): "Thoughts About and Remedies For the Slide in Livestock Feed Production"]

[Text] Jiangxi Province's livestock feed industry, which started up in the early 1980's, now has a 1.97 million ton per year production capacity from two shifts, thanks to the support of various preferential government policies, and the arduous efforts of the broad masses of staff members and workers in livestock feed firms. This has made a contribution to the development of the province's livestock raising industry. However, during the past year, a "slide" has occurred in the province's livestock feed output. Relevant data show a 19.4 percent decline in livestock feed output during the first quarter of 1989 as compared with the same period in 1988, for a 20.7 percent decline in output value, and a 17.3 percent decline in profits and tax payments. The first quarter output of the Jinxian County Livestock Feed Mill fell 52.9 percent from the same period in 1988. Its profits from sales totaled 22,200 yuan in an 80.3 percent drop from the same period in 1988. The Dongxiang County Livestock Feed Mill made a first quarter profit of 1,700 yuan in 1988 only to show a 23,200 yuan loss during the same period in 1989.

Many reasons account for the large "slide" in livestock feed industry production, but the rise in prices of livestock feed raw materials is the main reason occasioning the slump in livestock feed production. Corn is the main raw material used for livestock feed products, and Jiangxi Province relies on deliveries of corn from other provinces. As a result of the state's having instituted a series of major reforms in the grain system, resulting in the cancellation of grain and edible oil allocations among provinces at parity prices, Jiangxi Province now has to depend primarily for the corn it needs on purchases through channels in which the market regulates prices. The delivered price of corn during the first quarter of 1988 was generally between 0.50 and 0.52 yuan per kilogram (and kilogram applies hereinafter). During the first quarter of 1989, it was more than .80 yuan. The price of wheat bran increased from between 0.40 and 0.45 yuan per kilogram in 1988 to between 0.63 and 0.70 yuan during the first quarter of 1989. As of today, raw materials prices are still strong, with no sign of falling again.

The rise in livestock feed industry processing costs has pushed up livestock feed prices. The price of electric power used in production has increased from between .08 and .09 yuan to nearly 0.20 yuan per kilowatt hour. At a rate of 12 kilowatt hours of electricity per ton of livestock feed, the cost per ton has risen 1.32 yuan. Increases in staff member and worker wages and subsidies, and very great rises in expenses for maintaining fixed assets and purchasing spare parts have powered a rise in processing costs. A ballpark estimate based on survey data from 10 livestock feed mills shows a 33 percent cost increase during the first quarter of 1989 in comparison with the same period in 1988 in fuel used to produce power, a 54 percent increase in payments of a wage nature, and a 70 percent increase in other expenditures. The Jinxian County Livestock Feed Mill's processing costs per ton of livestock feed rose from 15.64 yuan per ton in 1988 to 34.27 yuan, a 1.19-fold increase. The Wan'an County Livestock Feed Mill's costs per ton rose from 24.93 yuan in 1988 to 36.46 yuan in 1989, a 46 percent increase. The Nanchang Municipal Livestock Feed Mill's costs increased from 19.38 yuan per ton in 1988 to 26.58 yuan per ton, a 37 percent increase.

The rise in the price of livestock feed, and the relatively stable market-controlled live hog purchase price made it impossible for livestock raising households to realize a profit from production. This hit livestock raising households hard, particularly households specializing in the raising of livestock. A survey conducted by departments concerned showed a 50 percent decrease in the scale of livestock raising from January through April 1989 in comparison with the same period in 1988. The serious "slide" in the scale of hog raising had a direct effect on demand for livestock feed. It took more than two days to sell the production from a single shift at the Wan'an Livestock Feed Mill. The mill's starting up and closing down differed greatly from the former flourishing scene of crowds lining up to buy. In order to reduce overstocking and maintain their livelihood, some feed mills had to change their formulas, lowering quality standards in order to bring livestock prices down to a level that the public would accept. Such "improvisation" is without doubt, disadvantageous to development of the province's livestock raising industry.

We believe the following remedies will have to be adopted in order to get out of the livestock feed production "slide" predicament:

First, prices of raw materials, particularly corn prices, will have to be pegged. In the present situation in which corn prices continue to be high, the exchange of livestock feed for grain cannot be regarded as a sound plan. In the Wan'an County market, the negotiated price of 50 kilograms of paddy is around 44 to 45 yuan. The blended livestock feed used for feeding hogs that the livestock mill there produces sells for 44.90 yuan per 50 kilograms. The mill carries on an exchange in kind business, "a jin of feed for a jin of paddy," then taking the paddy it receives in exchange for feed and exchanging it for corn as a means of lowering the delivered price of corn. Then,

it lowers livestock feed sale prices on the basis of the amount of corn it puts into the livestock feed, and increases appropriately the proportion of feed exchanged for paddy on the basis of the sale price of feed. Since economic returns from the use of paddy to raise hogs are not as high as from using blended livestock feed to raise hogs, and since they do not lose on price, the masses generally welcome the "exchange of livestock feed for paddy." In addition, the province has a considerable amount of parity price grain and edible oil byproducts. Were most of them used for livestock feed production, production costs of livestock feed could be lowered somewhat.

Second is better livestock feed enterprise administration and management, tapping the potential within enterprises, and following a course of thin per unit profits on a large sales volume. We found from a look at nearly ten livestock feed mills that administration and management in most of them were poor. Financial accounting work and cost accounting were not done properly. In workshops and on roads everywhere, one saw scattered raw and processed materials, semifinished products, or completely finished goods. In warehouses, raw and processed materials were stacked helter-skelter, and losses from broken bags were serious. Raw materials entering warehouses were not checked for weight; an inventory was taken only once every several years, and shortages of as much as 10,000 jin of corn and bean cake were lightly written off with the stroke of a pen. This not only caused a waste of limited resources, but also increased enterprises' production costs. Therefore, improving enterprises' internal planning, production, organization, direction, supervision, and regulation to make fullest use of enterprises' resources, improving the labor productivity rate, and lowering production costs, is a fundamental way in which to invigorate enterprises and increase their economic returns. The key issue in changing the backward state of enterprise management lies in improving the quality of managerial personnel. Livestock feed enterprises are a newly developing kind of business. Training to improve the quality of managerial personnel, and of staff members and workers seems a particularly urgent need.

Third, in order to foster the development of the livestock feed industry, the state should continue to exempt livestock feed production from industrial and commercial taxes in order to reduce the burden on enterprises. Currently, the state exempts livestock feed enterprises from product taxes and business taxes so that they can manage to maintain simple reproduction. Should the state revive livestock feed production businesses' payment of industrial and commercial taxes, enterprises would be unable to maintain reproduction. In quite a few enterprises, we saw it was difficult to proceed with technical transformation and technological innovation for lack of reserve strength for development. For example, the livestock feed mills that were built somewhat earlier in some counties have old equipment, and their technology is also fairly antiquated. Electric power

consumption per unit of product is high. Enterprises urgently need to acquire equipment to change this situation. However, when there are no funds, they can only look at their "machinery" and sigh. Relevant data show 20.58 million yuan as owing on investment credit or loans as of the end of 1988 (not including the amount of county level loans). If this situation continues, it will be difficult to develop livestock feed enterprises. Thus, the continued exemption of livestock feed production from industrial and commercial taxes remains necessary for the near future. In order to prevent enterprises from distributing as profits money gained through exemption from industrial and commercial taxes, portions derived from tax exemptions should be put into a special enterprise production development fund for proper use under financial supervision.

Fourth, the building of a regular system for contact between producing mills and customers is the most effective way to insure markets for products and to stabilize livestock raising industry production. Livestock feed producers possess certain technical advantages, such as being able to widen the scope of services they provide. For example, they can guide livestock raisers in the scientific raising of livestock, the proper use of feed, and demonstrating science and technology to form a pattern in which "livestock feed production and the raising of livestock is a coordinated process." This could both stabilize livestock feed production and marketing, and also promote the development of the livestock raising industry as the best way to increase social benefits and enterprises' economic returns to the maximum limit. The Dongxiang County Livestock Feed Mill, and households specializing in hog raising, set up regular contacts, and helped livestock raising households keep open channels for the sale of live hogs. The Yingtan Municipal Livestock Feed Mill supplied livestock feed at a preferential price on presentation of certificates by households specializing in hog raising. Their ways of doing things deserve to be extended elsewhere.

Fifth, is better livestock feed market management. Since the quality of livestock feeds in powdered form cannot readily be determined with the naked eye, and since there are no clear-cut regulations about livestock feed market management, a lot of misrepresentation of commodities, and supply of inferior products occurs. Some counties have as many as several scores of individual households dealing in livestock feed. In the dead of night, dealers openly add low quality materials such as powdered rice husks to blended livestock feed along the road. Although the livestock feed they sell is somewhat lower in price, making it rather attractive, it is of low quality. This just does not meet the minimum quality standards set by the state, and both hurts the broad masses of people, and also the reputation of the government and state-owned livestock feed enterprises. Consequently, industrial and commercial administrative management must be improved, livestock feed markets must be straightened out, and a management system must be established of open producers, open blending, open

nutritional standards, open prices, and above board dealings. Products that livestock feed mills produce should bear trademarks, and places that are able to do so should use special bags to prevent misrepresentation that hurts the masses.

Sixth, is to make use of the role of price levers to adjust benefit relationships. We believe that when formulating pricing principles for livestock feed products, the number of middlemen should be strictly controlled, and the basic principle of thin per unit profits on high volume sales be practiced to make the most of the guiding role of prices in socioeconomic life.

Sichuan Grain Output Increases

OW2012214589 Beijing XINHUA in English
1545 GMT 20 Dec 89

[Text] Beijing, December 20 (XINHUA)—The total grain output of Sichuan Province, China's most populous province, reached 40.685 billion kilograms this year, an increase of 1.9 billion kilograms over last year's figure, the PEOPLE'S DAILY reported today.

Production of cotton, flue-cured tobacco, silkworm cocoons and oranges also increased greatly. The number of live pigs is expected to reach 57 million.

To achieve this year's target, about 8.09 million people took part in the construction of water conservancy projects last winter and this spring.

More than 1.2 million mu (about 80,000 hectares) of low-yielding land were improved and seven million mu (about 460,000 hectares) were irrigated.

Scientific workers in Sichuan Province contracted 1,800 scientific programs, including directing people in the use of fertilizer, comprehensive prevention and cure of plant diseases.

Preliminary statistics show that the grain output of the 50 million mu (about 3.3 million hectares) of contracted land increased by 1.15 billion kilograms and brought an increased income of 2.8 billion yuan.

Beijing Freshwater Fish Output Increases

OW2212190989 Beijing XINHUA in English
0923 GMT 22 Dec 89

[Text] Beijing, December 22 (XINHUA)—Beijing has had a good catch this year, with the total output of freshwater fish surpassing 46 million kilograms, seven million kg more than last year and 15.6 times that of 10 years ago.

Today's BEIJING DAILY says 17.5 million kg of live fish are ready for sale for the coming new year and the traditional Chinese lunar new year, which falls on January 27 next year.

Thanks to the municipal government's efforts to encourage and assist the industry, fish production has kept increasing since 1983 at a rate of 5 million kg a year.

Contract Grain Purchases in Hebei

SK2112010089 Shijiazhuang *HEBEI RIBAO* in Chinese 3 Dec 89 p 1

[Summary] As of the end of November, the entire province had laid up 782,700 tons of contract grain and purchased 173,700 tons of grain at negotiated prices which will be sold to the people at government prices, accounting for 76.5 percent and 69.5 percent respectively.

Inner Mongolia Reaps 'Good' Grain Harvest

SK2012225889 Hohhot Inner Mongolia Regional Service in Mandarin 1130 GMT 18 Dec 89

[Summary] The Inner Mongolia Autonomous Region reaped a good grain harvest this year. The grain output reached 6.779 million kg, the second peak year in history.

Water Resources in Northwest Region Decrease

OW2012213989 Beijing *XINHUA* in English 1506 GMT 20 Dec 89

[Text] Yinchuan, December 20 (XINHUA)—Northwest China's glacier reserves are shrinking by a fifth every 20 years, leading to a sharp decrease in the surface runoff and turning river valleys into desert.

Xinjiang, Gansu, Ningxia, Shaanxi, Qinghai and Inner Mongolia are dry areas where the supply of water per capita is far lower than the average in China.

The whole glacier area in northwest China covers 30,900 square kilometers, with water reserves of 3,000 billion cubic meters. The average melting rate is 25 billion cubic meters a year, which represent the water resources of the continental rivers in the northwest areas.

However, between 1975 and 1985, the average temperature has risen by 0.2 to 0.4 degrees centigrade on the level for the period 1955 to 1965. This has accelerated the melting of glaciers.

During 1980 to 1987, the rainfall in the northwest area has decreased by four to seven percent over the 1960s figure. Simultaneously, the evaporative capacity has increased and the ground water level has fallen by 0.3 to 0.8 meter between 1973 and 1987.

A report says that the level of Qinghai Lake is dropping by a meter every eight years. Surface runoff in Xinjiang has fallen from 80.59 billion to 72.45 billion cubic meters between 1970 and 1979.

With the reduction in water resources, large amounts of vegetation in the northwest areas are perishing, more soil is becoming desert and the ecology is deteriorating.

Decade Sees Increase in Fruit Production

OW2012031589 Beijing *XINHUA* in English 0145 GMT 20 Dec 89

[Text] Beijing, December 20 (XINHUA)—Fruit production has greatly increased in China in the past 10 years, according to CHINA FOODSTUFFS WEEKLY.

The newspaper reported that the output value of fruit production this year is estimated at 20 billion yuan.

By the end of 1988, some 5.066 million hectares of land was covered with fruit trees, producing 16.66 million tons of fruit for the year, 3.1 and 2.5 times the 1978 figures, respectively.

The newspaper said that in addition to increasing the production of apples, pears and oranges, which are the main fruits in China, the country has stepped up the production of other fruits.

China has made efforts to improve its fruit production by popularizing high-yielding fruit trees and teaching advanced farming techniques to fruit farmers.

According to the newspaper, fruit storage and processing has also improved. The country now has an annual fruit processing capacity of 3.5 million tons.

Increased Income for Farmers

OW1512064189 Beijing *XINHUA* in English 0248 GMT 15 Dec 89

[Text] Beijing, December 15 (XINHUA)—The average annual income of the 800 million farmers in China reached nearly 500 yuan (about \$138) this year, 15 yuan more than last year, according to the Ministry of Agriculture.

Total rural economic income is expected to top 749.1 billion yuan (\$202 billion), a 12.1 percent increase over last year, ECONOMIC INFORMATION reported.

And total rural expenditure is estimated to be 325.2 billion yuan, up 19.1 percent over last year, figures from provinces, municipalities and autonomous regions across the country show.

Excluding taxes and money collected by the collectives, the average annual income of farmers in the country is 499 yuan (about \$134) this year.

In a related development, about 60 million formerly poor farmers have been lifted out of poverty in the past four years. The percentage of the impoverished among the rural population dropped to 5.3 percent by the end of last year from the previous 12.3 percent. Chen Junsheng, state councillor said at a poverty relief work meeting in Henan Province.

XINHUA Carries Economic News Briefs

OW2712073389 Beijing XINHUA in English
0703 GMT 27 Dec 89

[Text] Beijing, December 27 (XINHUA)—Today's economic news briefs: Soybean Growing Technique [sub-head]

China is to transfer soybean growing techniques to the Soviet Union. An agreement on the deal, which calls for cash rather than barter, was signed this month. Under the agreement, some 400 experts and technicians will be sent from Heilongjiang Province next year to introduce the techniques at six Soviet farms.

Agricultural Machinery

Jilin provincial authorities have decided to take measures to encourage farmers to buy large agricultural machinery.

Under the incentive program, farmers may purchase large equipment with a 30 percent down payment and the rest will be financed with a bank loan covering 50 percent and a 20 percent financial subsidy.

Jilin Province in northeast China has 10,000 large tractors which need to be replaced, but farmers can not afford to buy replacements without financial assistance.

Shanghai Grain Output Target

OW2212184689 Beijing XINHUA in English
0722 GMT 22 Dec 89

[Text] Shanghai City plans to produce 2.5 million tons of grain a year during the Eighth 5-Year Plan (1991-1995), 8.7 percent more than the figure for the Seventh 5-Year Plan (1986-1990). In order to meet the target, the city has to increase its per-hectare grain yield to over 12.5 tons from the current 10 tons.

Cut in Price of Chicken Pleases Customers

OW2312131589 Beijing XINHUA in English
0727 GMT 23 Dec 89

[Text] Beijing, December 23 (XINHUA)—The 10-day cut of 10 percent in the retail price of chicken has been popular among Beijing residents since it was introduced here early this week.

The Dongdan Food Market on East Chang'an Avenue, one of the largest in the capital, sold one ton, or about 700 of the plastic-wrapped chickens, on Monday, the first day of the price reduction. Previously the daily sale was about 600.

The retail price has dropped from an average of 9 yuan (about \$1.91) per kilo to 7.8 yuan (about \$1.66) while the quality remains the same.

Chicken is a favorite food in many Chinese households. Today's CHINA DAILY quotes the Beijing Chicken

Product Co. as saying the price reduction was designed to attract more buyers and maintain farmers' interest in chicken-raising.

The business chief of the company said it would make up the loss in other ways without receiving any subsidies from the state.

The company imported three chicken-processing lines from East Europe in 1984 and is capable of supplying 500 tons each month to Beijing's five big stores and 18 other medium-sized food and vegetable markets.

Consumption of Forestry Resources Declines

OW2312184789 Beijing XINHUA in English
1538 GMT 23 Dec 89

[Text] Beijing, December 23 (XINHUA)—Wood consumption in China totaled 328.496 million cubic meters in 1988, 4.3 percent less than the average annual consumption in the 1984-1988 period, and 7.3 percent less than the figure for 1985, the PEASANTS' DAILY reported Friday.

Eighty percent of wood consumption was accounted for by 11 provinces and autonomous regions—Heilongjiang, Yunnan, Fujian, Sichuan, Inner Mongolia, Jilin, Guangxi, Jiangxi, Hunan, Guizhou and Henan.

The timber used in production was 61.3 percent of the total. Nonproductive consumption of timber accounted for 36.3 percent of consumption and natural disasters accounted for another 2.4 percent.

The timber that were burnt accounted for 32.5 percent of total consumption and 90 percent of the timber used in non-productive fields. The amount was 108,000 cubic meters more than was burnt in 1985.

Timber used by peasants for private purposes accounted for 21.5 percent, second only to the amount burnt.

Farm Machines, Tools in Jiangsu in Short Supply

HK1812071089 Beijing RENMIN RIBAO in Chinese
5 Dec 89 p 5

["Economic Jottings" by Chen Zhihai (7115 3112 3189) and Zeng Yang (2582 7122): "Why Are We So Short of Farm Machines and Tools?"]

[Text] One can see that during the harvest time peasants in the rural areas of Jiangsu Province use thinner and shorter sickles than ordinary ones. When weighing a sickle in his hand, a peasant said: This sickle has been ground and repaired many times, and I have used it for four years and have never replaced it. Why? I have not found a better one.

While small farm tools are like this, farm machines also have a lot of problems. When a furrows-making machine breaks down, one cannot find spare parts for the repairs.

They can only use the old indigenous method: Making furrows by manual labor. A job which normally takes only three hours requires three days' work now. After the bumper harvest, threshing is very important, but people are looking here and there for threshing machines.

In companies dealing in the means of production, the varieties of farm tools are few and there are not many of these tools. Water pumps and fodder grinders are hard to find. The reason is that there is not a single firm that imports them. Then, where are the manufacturers of farm machines and tools?

According to an investigation by the department responsible for the management of town and township enterprises in Nanjing city, in 1988 there were only 15 manufacturers of farm machines, only one fifth of the number in 1983. Some of these manufacturers do not specialize in farm machines and tools and the small farm machines and tools they manufacture can only meet local consumption. Ten of these manufacturers only produce farm machines and tools that account for one third of the total products they produce, two-thirds being products for further processing. The Yuhua Farm Machines Factory, for instance, specializes in the production of dust-removing equipment and pressure containers. It only manufactures farm machines as a sideline. As so many of these factories have shifted their lines of production, there has been a large decrease in the number and varieties of farm machines. According to statistics of Nanjing city, the annual output of medium-sized and small farm tools was 2,235,800 pieces in 1983 while in 1988 the number dropped to only 1,820,400. The annual output of semiautomatic farm machines dropped from 1,914 pieces in 1983 to only 308 pieces in 1988. Since manufacturers of farm machines have shifted their production lines and farm tools are in short supply, peasants are very worried now. Moreover, this has increased labor intensity.

We find that the reasons so many enterprises that once manufactured farm tools have shifted their lines of production are: First, there has been a large increase in the prices of raw materials for farm machines, while the state has placed strict control over the prices of farm tools. Therefore, a large number of enterprises would not risk suffering serious internal losses. Second, there has not been a stable source of supply of raw materials. If manufacturers produce low-priced farm machines and tools by acquiring high-priced raw materials, they cannot hold out.

Farm machines and tools are indispensable in agricultural production. The most important thing to do now is to increase our investment in agriculture, and increase the production of farm machines and tools so as to meet the demand of peasants. Departments concerned shall attach high importance to this and take practical and effective measures to improve the vitality of the enterprises that manufacture farm machines and tools, and do something in support of agricultural output.

2 Million Hectares Tidal Land Stated for Development

OW1712073389 Beijing XINHUA in English
0712 GMT 17 Dec 89

[Text] Beijing, December 17 (XINHUA)—By the year 2000, China is expected to open up a total of two million hectares of tidal land along its coast, according to a development program of the country.

Statistics provided by the Ministry of Agriculture show that by the end of this century, most of China's tidal land will be exploited to build 34 bases for the production of grain, cotton, edible oil, sugar, fruit, aquatic products and salt.

If the program works as planned, the developed tidal land will add annually 1.37 million tons of grain, 53,000 tons of cotton, 1.04 million tons of sugar cane and 250,000 tons of prawns by the year 2000.

News Conference Held Regarding Cotton Purchase

SK2112011589 Jinan Shandong Provincial Service in Mandarin 2300 GMT 8 Dec 89

[Text] The provincial government held a news conference on the afternoon of 8 December. Secretary General Yu Peigao reported on the province's situation in cotton purchases and the guidelines of the instructions of the provincial party committee and government on giving consideration to the overall situation, purchasing more cotton, and comprehensively fulfilling the cotton purchasing and delivery tasks in an effort to support national development.

Although our province experienced serious natural disasters and many difficulties in cotton production, it still reaped a good harvest through the efforts of the broad masses of cadres. As of 6 December, the province as a whole had purchased 16.5 million dan of cotton, accounting for 74.9 percent of the purchasing plan. By the end of November, among the province's 30 cotton producing counties, eight counties, cities, and districts, including Linqing, Gantang, Yangxin, Wudi, Zouxian, Yutai, Cangshan, and Dongying fulfilled or overfulfilled their cotton purchasing tasks. Seventeen counties, cities, and districts fulfilled over 80 percent of their purchasing plans. Sixteen counties, cities, and districts, including Jiaxiang, Juancheng, Yanzhou, and Liaocheng only fulfilled less than 50 percent of their purchasing plans. Some cities and counties only fulfilled a little more than 20 percent of their purchasing plans.

The state-assigned cotton purchasing plan of our province is short by more than 5 million dan. The task of fulfilling the purchasing plan is very arduous. The reason for such a situation is mainly that in addition to a reduction of output caused by natural disasters in certain localities, some localities understated the cotton output and the purchasing volume for partial and local interests. Many cotton growers have waited for the right price to

sell their cotton. A great number of cotton growers have stored up their cotton and have not sold it to the state. Leaders of some localities have failed to fully understand the situation and to firmly attend to the purchasing work. They have failed to make their service work keep pace with cotton purchases. Concerning the severe situation in current cotton purchases, leaders of the provincial party committee and government have paid great attention to it. Over the past few years, Jiang Chunyun and Zhao Zhihao respectively held an executive meeting of the provincial party committee secretary and an executive meeting of provincial governor to particularly study the issues on cotton purchases and delivery, put forward specific demands, and formulated relevant policies and measures. The provincial party committee and government pointed out: It is necessary to fully understand the great significance in cotton purchases. Party committees and governments at all levels in various prefectures and counties throughout the province should take the overall situation into account, be concerned with what the country is concerned with and worry about what the country is worried about, concentrate energy on grasping the current cotton purchasing work, purchase all cotton that should be purchased, and strive to fulfill or overfulfill the state assigned cotton purchasing and delivery plans in an effort to support national development.

The broad masses of party members and cadres in the cotton-producing areas should actively respond to the call of the party and the government, lead the masses to vigorously purchase cotton to the state as a sign of their love for the state, and make more contributions.

The provincial party committee and government stressed: It is necessary to further strengthen the people's sense of organizational discipline, verify the cotton output, state the accurate cotton output figures to the higher authorities, state what one has actually produced, and seek truth from facts. It is not permitted to understate the cotton output or retain a portion of the output. It has also been decided to strictly implement the policies of awarding those who fulfill their contract cotton delivery plans and of punishing those who do not. [passage omitted]

The provincial party committee and government called on all localities, while grasping this year's cotton purchasing and delivery work, to conscientiously prepare for next year's cotton production, deeply arouse the people's initiative, extensively publicize the state policies, implement the farming plans, prepare seeds, chemical fertilizers, agricultural chemicals, and technology, and lay a good foundation for reaping a bumper cotton harvest next year.

The provincial party committee and the provincial government decided to dispatch work groups to the cotton producing areas to supervise and investigate the cotton purchasing and delivery work.

Jiang Chunyun, Zhao Zhihao, Ma Zhongcai, and Ma Shizhong have already respectively led work groups to

conduct investigation and study in the major cotton producing areas and to work on the spot to help solve problems in cotton purchases and delivery.

Fodder Industry Faces Tough Tasks

OW 2812031489 Beijing XINHUA in English
0146 GMT 28 Dec 89

[Text] Beijing, December 28 (XINHUA)—Degeneration of pasture and problems in the fodder industry are hindering the development of China's animal husbandry, according to an article in FARMERS' DAILY.

Many animals such as horses, cattle and sheep live on grass. There are 100 million animals throughout the country living on 400 hectares of pasture.

However, the pasture areas of degeneration, sand and salinization and alkalization have reached 86.6 million hectares and deterioration is continuing at a speed of 1.3 million hectares a year.

The article said the reduced pasture cannot meet the demand of domestic animals that already exceeded the bearing capacity of the pasture, especially in winter and summer when grass withers, sheep will lose 25 percent of their weight and lamb will lose 13 percent.

The pastures are valuable biological resources, thus the protection of pasture is an important link in the development of animal husbandry.

Other than the animals living on grass, quite a few kinds of animals live on mixed fodder. There are a lot of problems in China's fodder industry as well. If they are not resolved promptly, fodder production will be affected as well as animal husbandry.

The fodder industry is related to agriculture, grain processing, fishery products, medicine and computer technology. There are 15,000 fodder processing enterprises across the country. In 1988, the output of fodder increased by 30 times compared with 1980.

But the problems should not be neglected. For example, the processing enterprises may stop production at any time because of shortages of coarse grain.

In recent years, the prices of the main coarse grains such as bean cake and maize have been rising, severely hindering the development of fodder industry.

There are nearly 4,000 small township processing factories throughout the country. The factories in silkworm pupa powder processing, leaf powder and grass powder making were set up, depending on local fodder resources. This experience should be popularized in the country, the article said.

Fish powder and synthetic amino acid industries should be further improved in the light of the shortage of protein in fodder, it said.

State Farms Expect Better Grain Harvest

OH 2212131789 Beijing XINHUA in English
0902 GMT 22 Dec 89

[Text] Beijing, December 22 (XINHUA)—China's state farms expect to reap 9.38 million tons of grain this year, a 10.5 percent increase over last year.

This will be an all-time high, and cotton, sugar, fruit, tea and other cash crops are also expected to produce good harvests.

According to statistics, China has more than 2,000 state farms covering a total of 74 (figure as received) million ha.

Province Meets 83 Percent Grain Procurement Plan

SK 1912022389 Changchun Jilin Provincial Service in Mandarin 2200 GMT 17 Dec 89

[Text] As of 15 December, our province had fulfilled 83 percent of the grain procurement plan and stored 3.859 million tons of grain. The progress of storing grains of Jilin and Changchun cities and Baicheng Prefecture was lower than the provincial average. According to an

introduction given by the provincial grain and oil-bearing crops procurement office, because of dislocations in some aspects, the grain procurement funds in some localities are too excessive, affecting the storing of grain, particularly the storing of grain to be sold at negotiated prices.

In Lishu County, peasants have 200 kg of negotiated-priced corn awaiting procurement. Peasants in Gongzhuling City, after fulfilling their contract purchasing tasks, still have at least 300 million kg of corn for sale. However, they have adopted a wait-and-see attitude and are unwilling to sell their above-quota corn.

Liaoning's Cotton Procurement Increases

SK 1412014189 Shenyang Liaoning Provincial Service in Mandarin 1030 GMT 11 Dec 89

[Text] As the state has raised the purchasing prices of cotton, the province's cotton purchasing volume has increased by a large margin over last year. As of the end of November, the province as a whole had purchased 15,000 dan of ginned cotton, an increase of 18.5 percent over the same period of last year.

**Meeting on Using Educational Resources,
Collecting Funds**

*SK2512080389 Jinan Shandong Provincial Service in
Mandarin 2300 GMT 24 Dec 89*

[Text] The Shandong on-the-spot meeting to pool nationwide efforts to collect educational funds for improving teaching conditions successfully ended on 24 December. He Dongchang, secretary of the leading party group of the State Education Commission and vice minister of the State Education Commission, gave a speech at the end of the meeting. He said, "This meeting is successful. The experiences of Shandong as well as other areas have greatly enlightened us, helping us enhance confidence in education and find ways to develop education with Chinese characteristics. In educational reform and development, we must persist in following the mass line. To remove the great mountains that weighed on us—economic and cultural backwardness—we must try to win support from the masses and must realistically mobilize them and rely on them to run educational undertakings. This requires leading cadres to enhance their understanding of education. Only when they have enhanced understanding can they mobilize the masses. To mobilize the masses, we must not simply think about solving the money issue only. Many issues such as whether or not our educational sector has trained successors of the proletarian revolutionary cause and

whether or not the students are welcomed by the employers can never be separated from the masses."

Comrade He Dongchang emphatically pointed out that the kind of people we train is the core of education. We should draw on foreign countries' experiences in running education, but in the final analysis, we must proceed from China's reality and train people of a new socialist type with ideals, ethics, culture and a sense of discipline.

In referring to educational quality, He Dongchang said that to raise educational quality we should first stress moral education and to do this, first of all, we must enhance teachers' political and ideological levels. In addition, we should also strengthen education on national conditions and patriotism among students. Only thus can we realistically train students and turn them into reliable successors of the socialist cause. Comrade He Dongchang also gave opinions on further improving the management system and internal structural reform.

During the meeting, Henan, Liaoning, Guangxi, Jiangxi, Gansu, and other provinces and autonomous regions gave typical examples of collecting educational funds for improving teaching conditions. The meeting also discussed ways to revise the relevant regulations and provisions put forward by the State Education Commission.

EAST REGION

Jiangsu Social Development Program Proves Successful

OW0401143390 Beijing XINHUA Domestic Service in Chinese 1453 GMT 29 Dec 89

[By RENMIN RIBAO reporter Gong Yongquan (7895 3057 3123) and XINHUA reporter Xu Jiling (1776 2623 3781)]

[Text] Nanjing, 29 Dec (XINHUA)—A comprehensive demonstration pilot project, jointly sponsored by the 18 ministries, commissions, and groups of the State Council, has achieved remarkable results in Jiangsu's Changzhou City and Huazhuang Township, Wuxi County, it was revealed in a meeting recently held by the State Science and Technology Commission in Changzhou.

The purpose of this project, initiated in 1986, was to deal with social problems in population, ecology, environment, public health, education, culture, transportation, and communications in a continued effort to increase living standards and population quality and promote the coordinated development of social undertakings and economic progress.

In the past three years, Changzhou City and Huazhuang Township carried out 35 and 25 social development projects, respectively, thus forming an initial situation of coordinated social and economic development. Participants at the meeting were happy to find that major undertakings of social development in the pilot areas, such as education, medical and public health service, population control, environmental improvement, and urban construction, had achieved a leading level in the nation. The gross industrial production value in Changzhou City increased by 24 percent during the past two years. The city has already established a system of social welfare and third-grade medical and public health service, thus basically forming a social security system, whereby the aged are well cared for, the young are provided with schools, the disabled are settled in rehabilitation centers, patients are provided with medical help, difficult problems can be dealt with properly, and the dead are provided with a resting place. In the field of urban construction, new apartments, with a floor space of 1.09 million square meters, were built in the urban areas, an increase of 1 square meter of average living space per capita. This was a useful exploration in improving housing and environmental conditions. Huazhuang Township already offered nine-year compulsory education, and all preschool children in this township can be well cared for in its preschools. In addition, the policy of producing and educating good offspring was carried out through a contracted system of public health service for both mothers and children. As a result, the family planning rate in the township reached 98.3 percent.

After reviewing these achievements, the participants at the meeting expressed their belief that the pilot projects had provided a useful revelation and worthy experience for launching social development work in other places. The pilot project showed that it is necessary to insist on taking science and technology as a guide in the work of social development. While formulating their plans, both Changzhou City and Huazhuang Township invited experts to make appraisals and reappraisals before deciding to carry out their targets for social development and construction projects, which were reasonable in planning and scientific, economic, and convenient for daily life. The pilot project also showed that it is necessary to train a group of personnel with a strong sense of social development and expertise.

The practice of the pilot project proved that smooth progress in social development can be guaranteed only by the participation of all forces of society as a whole. Through a coordinated effort of extensive mobilization and intensive publicity, both Changzhou City and Huazhuang Township organized all organs concerned to mobilize everyone caring to support and participate in the cause of social development.

At the meeting, attended by more than 180 people, Li Xue, vice minister of the State Science and Technology Commission, stressed that it is imperative to combine social development with cultural and ideological progress. In order to guide the people to live in a scientific, civilized, and healthy manner, we should strengthen construction of various facilities in society and cultural and ideological progress in the fields of science, culture, and moral principles at the same time. He expressed the hope that more provinces and cities would launch the same project to accumulate experience in their gradual social development.

CENTRAL-SOUTH REGION

Fuzhou Policeman Shot, Assailant Captured

HK08D0115 Beijing ZHONGGUO XINWEN SHE in Chinese 1316 GMT 6 Dec 89

Report: "Shooting Occurred in Fuzhou, Killer Was Apprehended on the Spot"—ZHONGGUO XINWEN SHE headline]

[Text] Fuzhou, 6 Dec (ZHONGGUO XINWEN SHE)—A serious shooting occurred at the Fuzhou Railway Station on 27 November, killing railway worker Liu Xiqiang, a national model laborer, and badly wounding Fuzhou policeman Chen Shanmin, who was shot twice. Guo Chunquan, the murderer, was arrested at the scene of the crime.

At 0825 that day, policeman Chen Shanmin spotted a suspicious middle-aged man among the passengers from the No 45 Beijing-Fuzhou passenger train in the line to the exit gate. Upon questioning, the man produced an identity card, employee card, and a free-ride permit for

railway employees. Chen barely noticed the bulge at the suspect's waist as he pulled out a gun and fired three shots before Chen succeeded in grabbing the gun. Chen was shot in his right upper chest and left lower abdomen and collapsed.

On his way to doing clean-up work, the manager of the Fuzhou Railway Station Service Company, Liu Xiqiang, happened to pass by Chen and the suspect. When he saw the shooting, he tried to hit the suspect with the spade in his hand but was fired at twice, one shot hitting the artery in his neck.

The gunshots alerted policemen and security personnel inside and outside the station. A chase ensued and after a fierce struggle, the murderer was arrested.

After Chen Shanmin and Liu Xiqiang were shot, they were rushed to Fuzhou Railway Medical Center and were given emergency treatment. Liu's gunshot wounds proved fatal and he died after all attempts to rescue him failed.

After all-out emergency treatment, Chen Shanmin was not longer in critical condition. The secretary of the Fuzhou Provincial CPC Committee, Chen Guangyi, visited Chen Shanmin on 3 December and expressed his sympathy to Chen's family.

Guangdong Forum Urges Improved Party Role in Enterprises

HK0301072590 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 30 Dec 89

[Text] A provincial forum on party work in enterprises concluded in Guangzhou on 29 December.

Participants focused their discussion on strengthening the party and giving full play to the political core of party organizations in enterprises. Party committee secretaries from five enterprises, including the Guangzhou Iron and Steel Works, detailed their experiences at the meeting.

On the morning of 28 December, Zheng Guoxiong, director of the provincial party committee Organization Department and a member of the provincial party committee Standing Committee, delivered a speech at the meeting. He pointed out that strengthening the party in enterprises is an important and urgent task, the institution of the system in which factory directors and managers assume full responsibility should continue, and the position of party organizations as the political core in enterprises should be established so as to bring the role of party organizations into full play. Zheng Guoxiong also called on party organizations in enterprises to do a good job in four areas: 1) Efforts must be made to consolidate leading bodies, improve work style, and establish and perfect the system that requires cadres at different levels to do physical labor in workshops at regular intervals to establish close ties to workers. 2) Education must be intensified among party members to

improve their quality. 3) Party organizations in enterprises must be strengthened and a contingent of appointed party affairs cadres, small in number but highly trained, must be established. 4) Efforts should be made to recruit new party members from among the workers and staff, and particularly from among outstanding workers at the forefront of production.

SOUTHWEST REGION

Guizhou CYL Urged To Share Party's Concerns

HK0201050790 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 29 Dec 89

[Excerpt] The third enlarged plenary session of the Eighth Guizhou Provincial Communist Youth League [CYL] Committee ended on 28 December.

Speaking at the meeting, Liu Zhengwei, provincial party committee secretary, emphatically pointed out that party committees at different levels should attach great importance to and strengthen their leadership over the CYL, and every party member and organization cadre should be concerned about the growth and progress of the younger generation with a communist's breadth of vision.

After summing up the present international and domestic situation, Comrade Liu Zhengwei pointed out that, under the present situation, CYL organizations at different levels should deepen their firm political conviction and vigorously beef up ideological and political work among the youth and help them grow healthily. These organizations should also, among vast numbers of youth, intensify education in the fundamental theory of Marxism, high ideals, and revolutionary traditions as well as education on the current situation and policies, and such education should be carried out at different levels and its focal points emphasized. Meanwhile, they should help the youth heighten their ideological and political consciousness and acquire more scientific and cultural knowledge. The current economic situation, measures to overcome difficulties, and the prospects for economic development should be described to young people as they really are so as to encourage them to deepen their understanding and win confidence. Efforts must be made to give full play to the outstanding role of CYL organizations in the task of further improving the economic environment, rectifying the economic order, and deepening the reform. Liu Zhengwei stressed that under the current serious economic situation and complex international and domestic environment, the party now needs the CYL more than ever, and CYL cadres should value the interests of our cause and the needs of the party above all else and enthusiastically carry out CYL work around the central task of the party so that vast numbers of CYL members and youth will of their own accord share the concerns and burdens of the party and country. [passage omitted]

Guizhou Holds Organizational Work Conference

*HK2412041489 Guiyang Guizhou Provincial Service in
Mandarin 2300 GMT 21 Dec 89*

[Excerpts] A provincial conference on organizational work was held in Guiyang yesterday [21 December]. Long Zhiyi, deputy secretary of the provincial party committee and director of the organization department, made a report at the meeting, which was entitled "Boost Our Morale, Concentrate Our Attention, and Build Our Party Organizations at All Levels Into a Strong Nucleus." [passage omitted]

Long Zhiyi pointed out that, in party building at present, the most important task is to strengthen the work of improving various systems of the party. The practice in various localities of our province proves that the following six systems are very important and should be popularized: 1) The system of discussing party building at regular intervals and selecting points for promoting this work; 2) the system of strengthening management and examination in party building; 3) the system of training party members and cadres at regular intervals; 4) the system of regular organizational activities; 5) the system of checking cadres; and 6) the system of making regular discipline inspection. The party organizations' members at all levels must resolutely carry out these systems [passage omitted]

Six Major Players in Hong Kong Politics

900N0044A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 236, 1 Sep 89 pp 46-49

[Article by Weng Songran (5040 2646 3595): "A Preliminary Analysis of the Political Battle for 1997 Hong Kong—If we metaphorically view the battle for 1997 as a political drama, then there are six groups of leading and supporting actors on the stage. Each group is made up of numerous subgroups and constituent organizations and each has political tendencies and is working hard to succeed with its own cause"]

[Text] Editor's Note: In the middle of 1985, Professor Weng Songran wrote a critique of "one nation, two systems" in which he comprehensively summarized, analyzed, and evaluated the developments starting from the Chinese authorities' proposal of "one nation, two systems" up to those that occurred after the joint Chinese-English declaration went into effect. Since 1985, the Hong Kong political scene has become enormously complex now that we are in the interim period. In recent days Professor Weng Songran finished up this article, which summarizes and elucidates the main features of the Hong Kong political battles as of mid-May of this year. Professor Weng wrote this article for a symposium he attended in the United States in May of this year. With the occurrence of the "4 June" incident, the six groups of political influence related in this article may need to be revised. However, because we have not seen any remarkable changes in the cast in the short period of time since the incident, we feel that Professor Weng's classification may very well provide a foundation for understanding future developments.

Six Groups of Leading and Supporting Actors in the Political Battle

As of mid-May of 1989, the leading contenders in the political battle for "1997 Hong Kong" can be depicted roughly as follows. If we speak metaphorically of the battle for 1997 Hong Kong as a political drama, then there are six groups of leading and supporting actors on the stage: namely, 1) government representatives from Beijing and the Hong Kong units under their command; 2) conservative industrial and commercial circles; 3) politically active democratic intellectuals and the grass-root masses allied with them; 4) Hong Kong Government and pro-British elements currently wielding power; 5) latent pro-Taiwan (Kuomintang) forces; and 6) concerned international social elements. Each group is made up of numerous elements and constituent organizations, and each has political tendencies and is working hard to serve its particular cause.

The Mission of Beijing and Its Source of Worries

Sitting to the rear of center stage and waiting to take control of Hong Kong are the government representatives from Beijing. This group of players is under the direct command of the Hong Kong and Macao office of the State Council in Beijing. They are supported by

important officials from the Hong Kong branch of the XINHUA NEWS AGENCY and the commission of National People's Congress representatives who took part in hammering out the Basic Law mini-constitution for the Hong Kong special administrative region. Other supporters include Hong Kong representatives of the National People's Congress and the Chinese People's Political Consultative Conference, leftist Hong Kong organizations (including such enterprise groups as the TA KONG PAO, the WEN HUI BAO, the China Travel Agency, elements from the Bank of China, the China Aviation General Administration (CAAC), the Bureau for Attraction of Commerce, Huarun Enterprise, and Guangdong Enterprise, and the various provincial, city, and regional organizations stationed in Hong Kong), and spokesmen from other leftist groups (like the Chinese Merchant Association of Hong Kong, the consultative commission on the Hong Kong Basic Law, leftist schools, labor unions, neighborhood organizations, and hometown village associations). Among the important officials belonging in the category are Ji Pengfei [1213 7720 7378], Zhou Nan [6650 0589], Ke Zaishuo [2688 0961 7007], Li Hou [2621 1775], Lu Ping [7627 1627], Xu Jiatun [6079 1367 1470], and Qiao Zonghuai [0829 1350 3232].

The primary missions of these players are to: (1) Ensure that on 1 July 1997 the reins of sovereignty are passed smoothly into China's hands, and that unexpected difficulties don't humiliate the nation and threaten its sovereignty over Hong Kong. To this end, a "joint Chinese-English contact group" has been established to conduct on-going consultations with England. (2) Promote the "one nation, two systems" policy, and ensure that Hong Kong remains prosperous. The "Basic Law for the Hong Kong Special Administrative Region" has been formulated for this purpose. (3) Absorb Hong Kong's capital, science and technology, and management experience, and effectively utilize Hong Kong in furtherance of the four modernizations on the mainland. For this purpose, the necessary organizational networks have been set up in Hong Kong to take advantage of Hong Kong's facilities and other factors. (4) Create a bridge through Hong Kong to bring about contacts with Taiwan so as to further the "great undertaking of unification." In furtherance of this end, the necessary propaganda, infiltration, exchange, and trade work is being carried out.

What worries this group is that the political situation will become chaotic, that Great Britain will suck Hong Kong dry, leaving an empty shell or some other undesirable result, or that post-1997 developments in Hong Kong will be so cataclysmic that China will lose face and great losses will be visited upon the mainland. Since 1982, this group has revealed its stance toward Hong Kong in the following ways: (1) They opposed the "surplus sovereignty theory" and the "three-legged stool" theory. (2) They opposed "not doing things by the book" and have persisted in espousing the "linkage theory." (3) They have opposed the ministerial system as well as any system of government dominated by a legislature. (4)

They have opposed the "direct vehicle" model for the first government of the Hong Kong special administrative region. (5) They opposed "direct elections in 1988." (6) They oppose any international meddling in China's handling of internal Hong Kong affairs.

Leaders of Industry and Commerce Fear Things Becoming More Political

Two groups stand pitted against one another at the head of the stage. Standing on the left and facing center stage are the leaders of Hong Kong industrial and commercial circles. On the right, facing the audience, stand leaders for democracy. Among the conservative industrial and commercial leaders, there are groups that represent British capital (companies like Yihe, Zhidi, Taiguyanghang, and so on), and others that represent Chinese capital (like Changiang Industries, Xinhongji, Xin Shijie, Ruian, and so forth). The most obvious examples of these groups are Lord Kadoorie of China Electric and Zha Jimin [2686 3444 3046] of Hong Kong Industries. In addition, this group also contains dynamic young leaders trying to break into the ranks such as Jian Fuyi [5623 4395 7392], and Liang Zhenying [2733 2182 5391], and young entrepreneurs like An Zijie [1344 1311 0094], Bao Yugang [0545 3768 0474], and Zha Liangyong [2686 5328 6978]. The so-called "89-Person Plan" and the "Checkup Plan" are representative of the concrete stances taken by these conservative industrial and commercial leaders. This group is trying to imitate the growing influence of the "economic alliance" in Japan.

Leaders of industry and commerce are a privileged class and thus are most concerned about changes in their privileges and in the existing form of government that allows them to have privileges. Aside from fearing chaos and instability, they also fear that society will become more political and people will start demanding "free lunches." Their political stance is shown primarily by the following: (1) They support a continuation of hands-off government and low tax policies. (2) They oppose a political system dominated by the legislature. (3) They opposed "direct elections in 1988." (4) They oppose any form of plebiscite. (5) They oppose establishment of a public accumulation fund system. (6) They actively support imported labor. People in this group often are found taking credit for the economic prosperity of Hong Kong, yet at the same time they are the most realistic—companies such as Yihe, Zhidi, and Hong Kong Enterprises among others have already moved their corporate headquarters to Bermuda.

Politically Active Leaders for Democracy Fear Loss of Human Rights

The main core of the politically active leaders for democracy comprises mostly the leaders of middle-class political groups that suddenly appeared on stage this year. Most of them are afraid of the communists, and oppose communist rule, and for this reason they have often been termed radicals. Actually, they advocate gentle, gradual

democratization, and it is only because their political skills are less than polished that they have acted a bit too fervently on occasion. The members of this group basically do things in their own way. They have common ideals but disparate leadership. And it would be pointless to even talk about their organizational discipline. The so-called "Joint Commission for the Promotion of Democratic Government" is merely a mild organization. More prominent persons include Li Zhuming [2621 2691 6900] and Si Tuhua [0674 1778 5478] of the legislative bureau, Yang Sen [2799 2773] of The Meeting Point, He Junren [0149 0193 0088] and Wen Shichang [2429 0013 2490] of the Taipingshan Academic Association, Li Yongda [2621 3057 6671] and Feng Jianji [7458 2914 1015] of the Association for Democracy and People's Livelihood, and Liu Qianshi [0491 0578 4258] of the Protestant Industrial Commission. Of these, the Meeting Point and the Taipingshan Academic Association actually have a political platform and candidates.

Currently, the grassroots organizations have a considerable mass constituency that believes in democracy and supports them. Si Tuhua, aside from being a leader in the association of educators, also has a noticeable following among the masses. And it is reported that Li Zhuming intends to organize a grassroots political party.

Members of the masses participating in grassroots democratic movements are likely to lean toward the left and could very well demand a strengthening of social welfare benefits. The intellectuals and specialists of the middle-class democratic movement are fairly idealistic. They are deeply afraid of losing basic human rights and freedoms, of being sold out, of being governed by a despotic dictatorship, of corruption and abuse of bureaucratic power, and they are afraid of what will happen if the communist system is employed in Hong Kong. Among them, there are also those who fear that power will not be distributed. These folks are no different from those who have the wild idea of being the "Hong Konger who governs Hong Kong." Among the items they have considered to be "must battles" are included: (1) Those provisions of the Basic Law that pertain to high degrees of autonomy for Hong Kong, such as the power to investigate constitutional violations (Article 17 of the draft), the power of the courts to interpret the law given in the Basic Law (Article 157), the right given by the Basic Law to propose revisions in the same (Article 158), and the limitations on the application of Chinese national law (Article 18). (2) Those provisions of the Basic Law preserving and ensuring human rights (Section 3 of the draft, and in particular Article 39, Item 2, pertaining to the application of international human rights conventions). (3) The stipulations as to democratic government contained in the Basic Law (Article 45 and Appendix 1 of the draft on the creation of senior administrative officials; Article 67 and appendix on the creation of the legislature; and the articles in Section 4 pertaining to the relationship between decisions of senior administrative officials and the legislature and the appendix on how the first special administrative region

will be brought about). (4) "Direct elections in 1988." (5) Popular votes to determine crucial issues, like whether the Basic Law is acceptable, whether senior administrative officials should be elected (through a plebiscite), and so forth. This group proposed the "190-Person Plan" and convened the "Gaoshan Convention."

In April of 1989 many members of the democracy camp boycotted the second Basic Law convention. And prior to this, many of them signed petitions, marched in protest, went on hunger strikes, and burned the MING PAO and the "solicitation for opinions on the Basic Law (draft)." Some insiders in the grassroots camp are reported to have said that it is because they witnessed this fierce and uncompromising behavior that they began to fear democracy and decided to support the "Zha Jimin Plan" and resist a popular vote. Currently, the democracy camp is actively preparing for the 1991 legislative elections. However, it appears the politically active democracy supporters have a long and bumpy road ahead of them.

Hong Kong and British Elements in Power Are Sizing Up the Situation

In the center of the stage, sandwiched between the Chinese Government and the leaders of industry and commerce and sizing up the situation stand those elements of the Hong Kong British Government in power. High-ranking political officials and bureaucrats are the tools of the Hong Kong British Government and both administrators and legislators are its vanguard. On its two flanks, both supporting and coercing it, stand the Huifeng Bank and the Hong Kong Horse Racing Association. And to its rear stands the government in London. Though many call the Hong Kong British Government a "lame duck," the fact of the matter is that this group will continue to occupy center stage until at least 1995. After 1995 some will withdraw, some will step aside, and others may change their makeup and continue to occupy center stage.

Currently, David Wilson, the Governor of Hong Kong, appears on the surface to be a titan among the power holders. In reality, David Ford of the Legislative Council, is in a decisive position. The financial and legal departments also are quite influential. From the two legislative bodies, Zhong Shiyuan [6945 1102 0955] who already has left, and current legislators Deng Lianru [6772 5571 1172] and Li Pengfei [2621 7720 7378] are all bright in the public eye. One also cannot underestimate the ambitions of Zhang Jianquan [1728 7002 2123] and Maria Tam Wai-chu both legislators. Tam's Progressive Association and the recently established "Hong Kong Fund" headed up by Zhang Jianquan and Li Jifei are both examples of deployments made by this group with 1997 in mind. In addition, others to watch out for in the future include such promising young government officials as Chen Zuze [7115 4371 3419] and Ceng Yinquan [2582 5593 2938] and young aspirants from the legislature like Tan Wang [character unknown] Ming [6223 3769 ? 7686].

The key mission at this stage for the Hong Kong British Government is to get through the transition period smoothly and help Britain make a dignified withdrawal. Other items on their agenda include: (1) protecting British economic and political interests in China and Hong Kong; (2) maintaining the prestige of the government and the effectiveness of the rule of law and avoiding becoming a "lame duck" government; (3) acting in concert with policies from China, cooperating with industrial and commercial leaders, and maintaining stable prosperity in Hong Kong; (4) working hard to secure human rights and freedom for the Hong Kong people and establishing a limited representative government. The Chinese Government will do the planning for the long-term future. The Hong Kong British Government need only take care of short-term operations. The Hong Kong British Government is afraid of chaos, losing control, offending Beijing, having three million Hong Kong residents immigrate to Great Britain, and having a transition period of such turbulence that Great Britain and British capital both suffer losses. Among the items it wants to protect are: (1) independent and effective government until 1997 or at least until 1995; (2) the possibility of and liberal conditions placed on foreign residents and British judges among others being allowed to remain at their posts after 1997 as permitted by the Basic Law (Articles 8, 24, 91 to 93, 99 to 102, and so on); (3) preventing too many Hong Kong residents who hold British passports from immigrating to Great Britain or freely entering and leaving British territory (for this reason the British immigration laws were revised to the effect that Hong Kong residents with British citizenship now must carry new travel documents); 4) turning back immigration from the mainland or labor from the mainland as well as clamping down on illegal immigrants.

In recent years legislators and civil servants have begun to trim their sails. They have strongly protested Britain's decision not to open the "Taiping Gate" to British citizens of Hong Kong residence. When a delegation from the foreign affairs department of the British Parliament visited Hong Kong in April 1989, they wanted to ask questions about the Basic Law, but Hong Kong residents dogged them on the "Taiping Gate" issue, and both sides made the other "sick." It is feared that middle class Hong Kong residents with special skills are going to start emigrating in waves.

The four groups we have touched on so far are the leading actors in Hong Kong's "drama of 1997." There are also two groups of supporting actors on the stage. One group comprises pro-Taiwan (Kuomintang) forces, and the other international social elements from the United States, Japan, and other places.

The Flinching Pro-Taiwan Influence

At first glance there would not appear to be much to the pro-Taiwan influence on Hong Kong. In fact, the pro-Taiwan influence is worth noting. Great Britain recognized the Beijing government as early as January of 1950

and since then both Britain and Hong Kong have suppressed ROC [Republic of China] and Kuomintang activities in Hong Kong. A long history of low-key efforts have made the pro-Taiwan influence in Hong Kong appear to be a flinching one. However, one should not take the pro-Taiwan influence too lightly. It includes: (1) ROC legislators in Hong Kong; (2) unofficial organizations established in Hong Kong by the ROC government such as the China Travel Agency (belonging to the Ministry of Foreign Affairs), the reader's service center of the Free China Commentary (belonging to the Department of Information), and the Hong Kong-Taiwan Trade Company (belonging to the international trade department of the Ministry of Economics), and so on; (3) Kuomintang organizations in Hong Kong or units supported by the Kuomintang (like the Chinese Cultural Association, the HONG KONG TIMES, Free China Relief Association, the Central News Agency, and News World; (4) conservative Chinese people's groups, schools, societies, and vocational groups (like China Airlines, the Kowloon General Chamber of Commerce, and the Zhuhai Academy); and (5) cultural figures and stars of TV and the movies, well-known figures from the publishing world, and so on. All told, the potential influence is considerable. Other Taiwan organizations working in concert with these organizations and persons include the Hong Kong and Macao work group of the Executive Yuan, the Overseas Chinese Commission, the Kuomintang Overseas Work Committee and the "Committee To Support Our Friends in Hong Kong" headed up by Hang Liwu [2635 4539 2976]. Currently, there are very few persons in Hong Kong political circles who represent pro-Taiwan influence. Aside from Peng Zhenhai [1756 7201 3189], who isn't very active, no one else comes readily to mind. And aside from Bu Shaofu [0592 1421 1133], very few other persons of any rank speak out publicly for Taiwan. Aside from making open private visits, ROC officials have a hard time getting anything done in Hong Kong.

The Kuomintang has all along refused to extend official recognition to Hong Kong. It has always treated Hong Kong as a point whereby the communists can be kept in check. Nor have the Hong Kong people been treated with importance by the Kuomintang and for this reason the ROC has always been discounted in the minds of Hong Kong people. It is clear by their Hong Kong policy that the authorities in Taipei are afraid of losing Hong Kong as a springboard for making a "counteroffensive," as a source of intelligence, and as a station for entrepot trade; losing huge amounts of political capital and economic interests; and having the "one nation, two systems" model extended to Taiwan. Taipei has not had any extravagant hopes for the Hong Kong people, nor has it taken any measures to look after the Hong Kong people, and so it has not really won much (only visa convenience, trade preferences, and preservation of a stronghold). In fact, the anticommunist and loyal Taiwan supporters have made impassioned pleas, but they have not received any real support and actually have ended up disappointed and in trouble with the Hong Kong Government.

International Forces Want Hong Kong To Stay the Same

International social elements are made up primarily of the Hong Kong consulates and commercial organizations of such nations with commercial interests in Hong Kong as the United States, Japan, the nations of Western Europe, and the nations of ASEAN, or else those member nations of the British Commonwealth like Canada, Australia, and New Zealand where Hong Kong residents desire to invest or immigrate. Of these nations, the investments of the United States and Japan represent the greatest influence. Moreover, aside from the U.S. consulate airing its views, U.S. congressmen will also potentially make their views known. On 17 March 1987, a Republican member of the House of Representatives put forth a bill that would have required the U.S. Government to conduct diplomatic discussions with the British Government concerning the issue of guaranteeing to the Hong Kong people their fundamental human rights, democratic sovereignty, and stability in their economic system. Moreover, he put forth his opinions on the election system to be used in the 1991 and 1994 legislative elections, with the result that the leftists complained of the United States meddling in internal Chinese affairs and blamed certain Hong Kong residents for "coercing foreigners to do their dirty work for them." Aside from the individual nations, international economic organizations, international human rights organizations, the United Nations Refugee Assistance Organization, and other specialized international organizations can also exert an influence on Hong Kong as they carry out their functions.

Generally speaking, the individual nations all would like to see Hong Kong remain a free port—for there is money to be made and interests to be acquired. They all have declared their support for "one nation, two systems." And as for immigration from Hong Kong and assimilating Hong Kong capital, they all have shown an interest and have plucked off the choicest candidates for themselves. At the same time, none of them have forgotten to establish bases in Hong Kong so that they may move into the Mainland China market when the time is ripe. Many nations have expounded on the virtues of internationalization in Hong Kong. U.S. law firms have striven to break into the Hong Kong market, and this has made Hong Kong attorneys extremely nervous.

Aside from the six groups of leading and supporting actors we have already discussed, the "drama of 1997" also has a few splinter groups which on occasion play commendable roles. The individuals and groups that proposed the "38-Person Plan" and who displayed heartfelt admiration for the Basic Law are one such group.

Where the Six Groups Stand

If we take the leftist or rightist political tendency of each of the six groups and put this on the horizontal axis, and take their degree of acceptance of "communist rule after



1997" and put this on the vertical axis, then their locations can roughly be charted as we have done in the diagram that follows.

Obviously, an exercise such as this will involve the subjective determinations of the author, will necessarily be approximate, and will probably contain errors. This is because the concepts represented by the divisions on the diagram are not defined with sufficient accuracy, and the research that would confirm or deny the classifications is inadequate. Whether reality corresponds to the diagram is something that further tests would verify, that the reader can find out for himself, and that study would help clarify.

What we should be clear about and what is worth taking note of is that the people in the six groups have different backgrounds, stances, interests, and networks of relationships, and so on, and for this reason their views, their political contacts, their plans, and their methods are also different. Among themselves, those who have similar stances and views will cooperate. For example, both the representatives of the Chinese Government and the leaders of industry and commerce disapprove of a democratic system of government, and, thus, they join hands in opposing the democracy movement. Both the pro-Taiwan elements and the democracy forces believe in "using democracy to repel the communists" and so the forces for democracy get support. But not many feel sympathetic with them.

Also, within each group there may be differences of opinion on policy or clashes of interests. So the group may not march completely in step. For example, on the issue of importing foreign labor, representatives of the Beijing government and leftist Hong Kong labor unions are poles apart; and among both the democratic forces and the leaders of industry and commerce there is factionalism over the question of party organization.

Concerning the question of the creation of the first special administrative region government, some leaders of industry and commerce are in love with the "direct vehicle plan" which puts them right in line with pro-British legislators; others prefer the "preparation commission" plan which "embodies sovereignty" and this puts them nearly in line with the Chinese Government; and others advocate the "Luohu-Shenzhen" plan and they are not alone in this.

Among the leading actors, there is a battle to see "who will win the prize." Supporting actors are usually content with trying to influence certain policies. Each of the ardent leading actors will surely display their prowess, and are now making the necessary calculations and carrying out the necessary skirmishes for partial or complete victory in influencing the system (particularly the political system) or getting power. Supporting actors may assist certain leading actor groups, but they won't themselves become another opponent in the battle among leading actors.

Future Developments

To correctly understand the political battle for "the Hong Kong of 1997" we would have to conduct a concrete and fairly detailed analysis of the personnel, resources, organization, and policies of each of the groups and estimate the actual power of each of the six groups. I am afraid a penetratingly objective analysis of this type is beyond the scope of this article. Taking a subjective guess, I would say that in the short term the industrial and commercial leaders will emerge as winners, but the long term, overall trend is for democracy. The mainland student democracy movement in April and May of 1989 will surely have a strong influence on Hong Kong. This helps out the democracy forces. The current wielders of power standing on center stage will gradually go into decline and will be replaced by representatives of the Chinese Government. Industrial and commercial leaders and Hong Kong and British power wielders (many of whom are rich) have now joined hands to put down the democratic movement, and representatives of the Chinese Government are doing their part, too. But, if the democracy forces can establish a stable organizational base among the people and can survive the several legislative elections following 1991, then their influence is sure to grow. If we have a popular election of administrative officials, then the democratic forces will look even better. The Chinese Government representatives would like to use the industrial and commercial leaders to successfully put down the democratic forces, but there is no way they will succeed. In other words, with 1997 in view, the democratic movement in Hong Kong could really turn out to be something.

[Written 14 May 1989 at Shatian]

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